

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF COMMUNITY HEALTH

October 1, 2001 through September 30, 2003

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan *Office of the Auditor General* **REPORT SUMMARY**

Financial Audit

*Including the Provisions of the Single Audit Act
October 1, 2001 through September 30, 2003*

Department of Community Health (DCH)

Report Number:
39-100-04

Released:
June 2004

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on DCH's financial schedules.

~ ~ ~ ~ ~

Internal Control Over Financial Reporting

We identified reportable conditions related to internal control over financial reporting (Findings 2 through 5).

~ ~ ~ ~ ~

Noncompliance Material to the Financial Schedules

We did not identify any instances of noncompliance applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

~ ~ ~ ~ ~

Federal Awards:

Auditor's Reports Issued on Compliance

We audited 9 programs as major programs and issued 9 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

~ ~ ~ ~ ~

Internal Control Over Major Programs

We identified reportable conditions related to internal control over major programs (Findings 6 through 13).

~ ~ ~ ~ ~

Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 6 through 14).

~ ~ ~ ~ ~

Systems of Accounting and Internal Control:

We determined that DCH was not in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* (Finding 1).

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Unqualified
16.579	Byrne Formula Grant Program	Unqualified
93.044 and 93.045	Aging Cluster	Unqualified
93.052	National Family Caregiver Support	Unqualified
93.268	Immunization Grants	Unqualified
93.283	Center for Disease Control and Prevention - Investigations and Technical Assistance	Unqualified
93.558	Temporary Assistance for Needy Families	Unqualified
93.778	Medicaid Cluster	Unqualified
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 30, 2004

Ms. Janet Olszewski, Director
Department of Community Health
Lewis Cass Building
Lansing, Michigan

Dear Ms. Olszewski:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Community Health (DCH) for the period October 1, 2001 through September 30, 2003.

This report contains our report summary; our independent auditor's report on the financial schedules; and the DCH financial schedules, notes to the financial schedules, and supplemental financial schedules. This report also contains our independent auditor's reports on compliance and on internal control over financial reporting and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133 and our schedule of findings and questioned costs. In addition, this report contains DCH's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULES



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

April 16, 2004

Ms. Janet Olszewski, Director
Department of Community Health
Lewis Cass Building
Lansing, Michigan

Dear Ms. Olszewski:

We have audited the financial schedules of the Department of Community Health for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

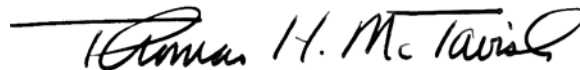
As described in Note 1b, the financial schedules include only the revenues and transfers and the sources and disposition of authorizations for the Department of Community Health's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and transfers and the sources and disposition of authorizations of the Department of Community Health for the fiscal years ended September 30, 2003 and September 30, 2002, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 16, 2004 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial schedule, the schedule of certain General Fund assets and liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal line extending from the left side of the name.

Thomas H. McTavish, C.P.A.
Auditor General

DEPARTMENT OF COMMUNITY HEALTH
Schedule of General Fund Revenues and Transfers
Fiscal Years Ended September 30

	<u>2003</u>	<u>2002</u>
REVENUES		
Taxes	\$ 101,478,530	\$ 56,907,667
From federal agencies	5,187,866,485	4,906,540,774
From local agencies	41,027,283	45,017,397
From services	23,548,399	25,473,591
From licenses and permits	2,651,984	2,887,611
Special Medicaid reimbursements	932,658,051	1,109,233,391
Miscellaneous	251,107,475	62,633,717
Total Revenues	<u>\$ 6,540,338,207</u>	<u>\$ 6,208,694,148</u>
TRANSFERS		
From Compulsive Gaming Prevention Fund	\$ 2,990,000	\$ 2,990,000
From Senior Care Respite Fund		1,963,463
From Gifts, Bequests, and Deposits Investment Fund	1,286,146	853,076
Total Transfers	<u>\$ 4,276,146</u>	<u>\$ 5,806,539</u>
Total Revenues and Transfers	<u><u>\$ 6,544,614,353</u></u>	<u><u>\$ 6,214,500,687</u></u>

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>2003</u>	<u>2002</u>
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	\$ 2,384,803,517	\$ 2,505,745,972
Balances carried forward	342,826,812	471,245,875
Restricted financing sources	6,881,003,929	6,638,277,674
Less: Intrafund expenditure reimbursements and expenditure credits	<u>(360,664,297)</u>	<u>(436,162,239)</u>
Total	<u>\$ 9,247,969,961</u>	<u>\$ 9,179,107,282</u>
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers	\$ 9,559,549,268	\$ 9,251,551,188
Less: Intrafund expenditure reimbursements	<u>(360,664,297)</u>	<u>(436,162,239)</u>
Net expenditures and transfers	<u>\$ 9,198,884,971</u>	<u>\$ 8,815,388,948</u>
Balances carried forward:		
Multi-year projects	\$ 186,048	\$ 2,147,744
Encumbrances	1,750,317	2,491,588
Restricted revenues - authorized	298,189	493,849
Restricted revenues - not authorized (Note 3)	<u>38,745,560</u>	<u>337,792,131</u>
Total balances carried forward	<u>\$ 40,980,114</u>	<u>\$ 342,925,312</u>
Balances lapsed	<u>\$ 8,104,899</u>	<u>\$ 20,891,522</u>
Overexpended	<u>\$ (23)</u>	<u>\$ (98,500)</u>
Total	<u>\$ 9,247,969,961</u>	<u>\$ 9,179,107,282</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The Department of Community Health (DCH) was created by an executive order in January 1996. DCH is generally composed of the former Departments of Mental Health and Public Health; the Medical Services Administration, which was part of the Family Independence Agency; and several programs transferred from the Department of Management and Budget. DCH's mission is to strive for a healthier Michigan by promoting access to the broadest possible range of quality services and supports, taking steps to prevent disease, promoting wellness and improving quality of life, and striving for the delivery of those services and supports in a fiscally prudent manner.

The accompanying financial schedules report the results of the financial transactions of DCH for the fiscal years ended September 30, 2003 and September 30, 2002. The financial transactions of DCH are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to DCH. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; Treasurer's Common Cash; Pension Benefits and Other Postemployment Benefits; Leases; Contingencies and Commitments; and Subsequent Events.

For purposes of presenting the financial transactions of DCH in the accompanying financial schedules, the Hospital Patients' Trust Fund has been excluded from DCH's reporting entity.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by generally accepted accounting

principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules present only the revenues and transfers and the sources and disposition of authorizations for DCH's General Fund accounts. Accordingly, these financial schedules do not purport to and do not, constitute a complete financial presentation of either DCH or the State's General Fund in conformity with generally accepted accounting principles.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized.
- c. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next

fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized.

- d. Intrafund expenditure reimbursements and expenditure credits: Funding from other General Fund departments or other DCH programs to finance a program or a portion of a program that is the responsibility of DCH. An example of a significant expenditure reimbursement from another General Fund department was the \$67 million for each of fiscal years 2002-03 and 2001-02 from the Department of Corrections for the operation of the Forensic Center. Expenditure credits included \$112 million and \$140 million from the purchase of State services contract reimbursements, \$128 million and \$179 million from disproportionate share payments received from State mental health facilities used to help finance the Medicaid Program, and \$49 million and \$47 million from food and drug rebates for fiscal years 2002-03 and 2001-02, respectively.
- e. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.
- f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- g. Restricted revenues - authorized: Revenues that, by statute or the State Constitution, are restricted and authorized for use to a particular program or activity. Generally, these revenues may be expended upon receipt without additional legislative authorization.
- h. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. However, DCH had not received legislative authorization to expend the revenues. The revenue in the Medicaid Benefits Trust Fund (Note 3) constitutes most of this line item.

- i. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- j. Overexpended: The total overexpenditure of line-item authorizations. DCH is required to seek a supplemental appropriation to authorize the expenditure.

Note 3 Medicaid Benefits Trust Fund

On January 11, 2001, Act 489, P.A. 2000, was enacted, which established the Medicaid Benefits Trust Fund within the General Fund. The Medicaid Benefits Trust Fund consists of:

- a. Unexpended State restricted revenue and local revenue received by DCH as a result of additional Medicaid special financing payments above the level assumed in the appropriations for fiscal years 1999-2000, 2000-01, and 2001-02.
- b. Donations of money made to the Medicaid Benefits Trust Fund from any source.
- c. Interest and earnings from Medicaid Benefits Trust Fund investments.
- d. Certain cigarette taxes collected beginning August 1, 2002. (On July 18, 2002, Act 503, P.A. 2002, was enacted, which amended Act 327, P.A. 1993. The amendment resulted in crediting a portion of the cigarette taxes to the Medicaid Benefits Trust Fund.)

Act 489, P.A. 2000, provides that the State Legislature shall authorize the expenditure of Medicaid Benefits Trust Fund revenue through an appropriations act for only the following purposes: (1) to finance a shortfall in the Medicaid Program because of a disallowance of Medicaid payments from the federal government or (2) to offset any decline in revenue caused by federal Medicaid policy changes.

The balance in the Medicaid Benefits Trust Fund was \$0 and \$301,711,940 as of September 30, 2003 and September 30, 2002, respectively. These amounts are included in DCH's schedule of sources and disposition of General Fund

authorizations as balances carried forward, restricted revenues - not authorized. In fiscal year 2002-03, the balance in the Medicaid Benefits Trust Fund was appropriated as a source of funding for the Medicaid Program.

Note 4 Contingencies

- a. School Based Services Outreach Program: The financial schedules include revenues and expenditures related to the School Based Services Outreach Program. These expenditures are partially funded by Medicaid. The federal Centers for Medicare and Medicaid Services (CMS), U.S. Department of Health and Human Services (HHS), issued a financial management review dated June 16, 2000, in which it cited several inadequacies regarding the time study procedures used in allocating expenditures to Medicaid, resulting in a disallowance. In reference to this disallowance, DCH reached a settlement with HHS on May 24, 2002.

As a result of the settlement, the following occurred:

- (1) CMS funded the following:

- (a) 100% of the claims from October 1996 through June 1998 in the amount of \$219,010,952.
- (b) 50% of the \$194,901,894 of claims from September 1998 through December 1999 in the amount of \$97,450,947.
- (c) 30% of the \$324,005,321 of claims from January 2000 through September 2001 in the amount of \$97,201,596.

- (2) DCH must develop and obtain CMS approval of revised time study codes and methodologies within six months of the settlement date. A retroactive adjustment will be made to "backcast" the results to the claims submitted during fiscal years 1999-2000 and 2000-01 based on CMS-approved implementation of the results of the new methodology for four quarters. The new rate will be applied to the \$324,005,321 of claims that were funded at 30%. Any variance from 30% will result in a corresponding adjustment in federal revenue and remain an immeasurable gain or loss contingency at that time.

(3) The time study results will also be backcasted to the claims covering services from October 1, 2001 through September 30, 2003, which have been submitted to CMS and/or accrued as of September 30, 2003 resulting in federal draws in the amount of \$86,311,539. The portion of the federal draws not paid to the intermediate school districts has been treated as long-term deferred revenue to delay recognizing the full federal revenues because of the uncertainty of the "backcasting" results. The total amount in long-term deferred status was \$55,504,008 and \$35,195,589 on September 30, 2003 and September 30, 2002, respectively. The remaining federal draws were recorded as federal revenue.

b. Bioport Lawsuit

There are three product liability-based lawsuits pending against Bioport, a Michigan corporation; the former Michigan Department of Public Health (MDPH); and the former Michigan Biologic Products Institute (MBPI), *Ammend et al v Bioport et al*, *Allaire et al v Bioport et al*, and *Fleming et al v Bioport et al*. All three cases involve the same claims against Bioport, MDPH, and MBPI for damages resulting from Anthrax vaccines that the U.S. Army ordered soldiers to receive that the plaintiffs allege were defective. Until July 1998, the MDPH laboratories were the sole producer, at the request of the U.S. Army, of Anthrax vaccine.

The U.S. Department of Defense may be required to indemnify the State for any damages paid; therefore, no estimate of the State's liability for these claims, if any, can be developed. Motions to dismiss the case because of the State's 11th amendment immunity have been filed and oral arguments were heard on all three cases on December 3, 2003.

SUPPLEMENTAL FINANCIAL SCHEDULES

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Certain General Fund Assets and Liabilities
As of September 30

	<u>2003</u>	<u>2002</u>
ASSETS		
Current Assets:		
Accounts Receivable:		
Amounts due from federal agencies	\$ 436,758,204	\$ 416,342,581
Amounts due from local agencies	41,629,926	92,780,559
Taxes, interest, and penalties receivable	7,798,936	7,990,146
Miscellaneous (other current assets)	<u>304,211,717</u>	<u>181,528,197</u>
Total Accounts Receivable	\$ 790,398,783	\$ 698,641,483
Inventories *	\$ 716,577	\$ 1,040,892
Noncurrent Assets:		
Accounts Receivable:		
Amounts due from federal agencies	\$ 1,341,180	\$ 3,142,258
Taxes, interest, and penalties receivable	\$ 9,897	\$ 5,160
Other noncurrent assets	\$ 460,000	\$ 460,000
LIABILITIES		
Current Liabilities:		
Accounts payable and other liabilities	\$ 561,415,270	\$ 632,877,369
Unearned receipts	\$ 299,564	\$ 1,236,666
Amounts due to other funds	\$ 1,301,897	\$ 539,349
Deferred revenue	\$ 3,275,993	\$ 2,734,616
Deferred revenue - Long-term	\$ 55,973,905	\$ 35,660,749

This schedule is not a balance sheet and is not intended to report financial position. The schedule presents certain General Fund assets and liabilities that are the responsibility of the Department of Community Health. The schedule does not include assets and liabilities that are accounted for centrally by the State, such as capital assets (land, building, and equipment), equity in common cash, cash in transit, and warrants outstanding.

* These amounts represent the cost of office and laboratory supplies on hand as of September 30.

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2001 through September 30, 2003

			For the Fiscal Year Ended September 30, 2002		
Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Financial Assistance</u>					
<u>U.S. Department of Agriculture</u>					
Child Nutrition Cluster:					
Pass-Through Programs:					
Michigan Department of Education					
School Breakfast Program	10.553	2002IN109942	\$ 56,422	\$	\$ 56,422
National School Lunch Program	10.555	2002IN109942	86,850		86,850
Total Child Nutrition Cluster			<u>\$ 143,272</u>	<u>\$ 0</u>	<u>\$ 143,272</u>
Direct Programs:					
Plant and Animal Disease, Pest Control, and Animal Care	10.025		\$ 110,694	\$ 28,585	\$ 139,279
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		96,892,451	23,788,341	120,680,792
Nutrition Services Incentive	10.570			7,115,606	7,115,606
WIC Farmers' Market Nutrition Program (FMNP)	10.572		85,054	427,857	512,911
Total Direct Programs			<u>\$ 97,088,199</u>	<u>\$ 31,360,389</u>	<u>\$ 128,448,588</u>
Total U.S. Department of Agriculture			<u>\$ 97,231,471</u>	<u>\$ 31,360,389</u>	<u>\$ 128,591,860</u>
<u>U.S. Department of Housing and Urban Development</u>					
Direct Programs:					
Supportive Housing Program	14.235		\$ 21,541	\$ 224,026	\$ 245,567
Shelter Plus Care	14.238		49,794	2,226,787	2,276,581
Housing Opportunities for Persons with AIDS	14.241		(16,029)	1,006,622	990,593
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		158,534	705,540	864,074
Total U.S. Department of Housing and Urban Development			<u>\$ 213,840</u>	<u>\$ 4,162,975</u>	<u>\$ 4,376,815</u>
<u>U.S. Department of Justice</u>					
Direct Programs:					
Crime Victim Assistance	16.575		\$ 14,780	\$ 11,045,194	\$ 11,059,974
Crime Victim Compensation	16.576		515,429		515,429
Byrne Formula Grant Program	16.579		1,401,607	16,871,321	18,272,928
Local Law Enforcement Block Grants Program	16.592		47,308	1,268,718	1,316,026
Residential Substance Abuse Treatment for State Prisoners	16.593			1,933,226	1,933,226
Total U.S. Department of Justice			<u>\$ 1,979,124</u>	<u>\$ 31,118,459</u>	<u>\$ 33,097,583</u>
<u>Total U.S. Department of Labor</u>					
Direct Programs					
Senior Community Service Employment Program	17.235		\$ 126,711	\$ 2,670,856	\$ 2,797,567
Total U.S. Department of Labor			<u>\$ 126,711</u>	<u>\$ 2,670,856</u>	<u>\$ 2,797,567</u>
<u>U.S. Department of Transportation</u>					
Highway Safety Cluster:					
Pass-Through Programs:					
Michigan Department of State Police					
State and Community Highway Safety	20.600	PS-02-01	\$ 35,000	\$ 30,000	\$ 65,000
State and Community Highway Safety	20.600	OP-02-04	40,000	10,000	50,000
State and Community Highway Safety	20.600	CP-02-01		307,757	307,757
State and Community Highway Safety	20.600	CP-03-10			0
State and Community Highway Safety	20.600	CP-01-05	(15,132)		(15,132)
State and Community Highway Safety	20.600	CP-02-02		362,767	362,767
State and Community Highway Safety	20.600	CP-03-13			0
State and Community Highway Safety	20.600	OP-00-05	(5,211)		(5,211)
State and Community Highway Safety	20.600	OP-02-09	65,333	26,000	91,333
State and Community Highway Safety	20.600	OP-02-13	48,500		48,500
Total Highway Safety Cluster			<u>\$ 168,490</u>	<u>\$ 736,524</u>	<u>\$ 905,014</u>
Total U.S. Department of Transportation			<u>\$ 168,490</u>	<u>\$ 736,524</u>	<u>\$ 905,014</u>

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2003

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 45,399	\$	\$ 45,399	\$ 101,821
70,058		\$ 70,058	\$ 156,908
<u>\$ 115,457</u>	<u>\$ 0</u>	<u>\$ 115,457</u>	<u>\$ 258,729</u>
\$	\$ 549	\$ 549	\$ 139,828
90,230,228	25,676,751	115,906,979	236,587,771
(917)	2,789,857	2,788,940	9,904,546
98,991	417,547	516,538	1,029,449
<u>\$ 90,328,302</u>	<u>\$ 28,884,704</u>	<u>\$ 119,213,006</u>	<u>\$ 247,661,594</u>
\$ 90,443,759	\$ 28,884,704	\$ 119,328,463	\$ 247,920,323
\$ 40,657	\$ 343,047	\$ 383,704	\$ 629,271
(516,127)	1,830,409	1,314,282	3,590,863
(19,204)	951,167	931,963	1,922,556
155,034	835,831	990,865	1,854,939
<u>\$ (339,640)</u>	<u>\$ 3,960,454</u>	<u>\$ 3,620,814</u>	<u>\$ 7,997,629</u>
\$ (201,798)	\$ 11,459,951	\$ 11,258,153	\$ 22,318,127
708,877		708,877	1,224,306
642,245	16,284,773	16,927,018	35,199,946
915	1,669,433	1,670,348	2,986,374
	1,933,326	1,933,326	3,866,552
<u>\$ 1,150,239</u>	<u>\$ 31,347,483</u>	<u>\$ 32,497,722</u>	<u>\$ 65,595,305</u>
\$ 118,102	\$ 2,798,031	\$ 2,916,133	\$ 5,713,700
<u>\$ 118,102</u>	<u>\$ 2,798,031</u>	<u>\$ 2,916,133</u>	<u>\$ 5,713,700</u>
\$ 33,941	\$	\$ 33,941	\$ 98,941
		0	50,000
(1,638)		(1,638)	306,119
	319,132	319,132	319,132
		0	(15,132)
		0	362,767
	369,526	369,526	369,526
		0	(5,211)
146,553		146,553	237,886
51,500		51,500	100,000
<u>\$ 230,356</u>	<u>\$ 688,658</u>	<u>\$ 919,014</u>	<u>\$ 1,824,028</u>
\$ 230,356	\$ 688,658	\$ 919,014	\$ 1,824,028

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2001 through September 30, 2003
Continued

			For the Fiscal Year Ended September 30, 2002		
Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>U.S. Environmental Protection Agency</u>					
Direct Programs:					
Surveys, Studies, Investigations and Special Purpose Grants	66.606		\$	\$ 18,997	\$ 18,997
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		389,620		389,620
Total U.S. Environmental Protection Agency			\$ 389,620	\$ 18,997	\$ 408,617
<u>U.S. Department of Education</u>					
Special Education Cluster:					
Pass-Through Program:					
Michigan Department of Education					
Special Education - Grants to States	84.027	020490-59CB	\$ 5,000	\$	\$ 5,000
Special Education - Grants to States	84.027	030490CB			0
Special Education - Grants to States	84.027	020490-59	29,607		29,607
Special Education - Grants to States	84.027	020490-59TS	26,451		26,451
Special Education - Grants to States	84.027	020440	31,520		31,520
Special Education - Grants to States	84.027	030440-0203			0
Special Education - Grants to States	84.027	H027A000110	30,000		30,000
Special Education - Grants to States	84.027	030490-TS			0
Total Special Education Cluster			\$ 122,578	\$ 0	\$ 122,578
Direct Program:					
Safe and Drug-Free Schools and Communities - State Grants	84.186		\$ 255,349	\$ 3,096,445	\$ 3,351,794
Total Direct Program			\$ 255,349	\$ 3,096,445	\$ 3,351,794
Pass-Through Programs:					
Michigan Department of Education					
Special Education - Grants for Infants and Families with Disabilities	84.181	021330/IACDCH	\$ 112,731	\$	\$ 112,731
Special Education - Grants for Infants and Families with Disabilities	84.181	031330/IACDCH			0
Total Special Education - Grants for Infants and Families with Disabilities			\$ 112,731	\$ 0	\$ 112,731
Michigan Department of Education					
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A000023	\$ 28,772	\$ 439,661	\$ 468,433
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A010023	515,794	179,000	694,794
Safe and Drug-Free Schools and Communities - State Grants	84.186	S186A020023			0
Total Safe and Drug-Free Schools and Communities - State Grants			\$ 544,566	\$ 618,661	\$ 1,163,227
Michigan Department of Education					
Eisenhower Professional Development State Grants	84.281		\$ 166	\$	\$ 166
Total Eisenhower Professional Development State Grants			\$ 166	\$ 0	\$ 166
Michigan Department of Education					
Innovative Education Program Strategies	84.298	010250	\$ 85	\$	\$ 85
Innovative Education Program Strategies	84.298	020250	97		97
Total Innovative Education Program Strategies			\$ 182	\$	\$ 182
Total Pass-Through Programs			\$ 657,645	\$ 618,661	\$ 1,276,306
Total U.S. Department of Education			\$ 1,035,572	\$ 3,715,106	\$ 4,750,678
<u>U.S. Department of Health and Human Services</u>					
Aging Cluster:					
Direct Programs:					
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		\$ (379,714)	\$ 12,416,434	\$ 12,036,720

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2003			
Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 9	\$ 11,000	\$ 11,009	\$ 30,006
449,989		449,989	839,609
\$ 449,998	\$ 11,000	\$ 460,998	\$ 869,615
\$ 5,000	\$	\$ 0	\$ 5,000
		5,000	5,000
		0	29,607
		0	26,451
	29,158	29,158	60,678
17,146		17,146	17,146
		0	30,000
30,000		30,000	30,000
\$ 52,146	\$ 29,158	\$ 81,304	\$ 203,882
\$ 199,347	\$ 2,705,600	\$ 2,904,947	\$ 6,256,741
\$ 199,347	\$ 2,705,600	\$ 2,904,947	\$ 6,256,741
\$ (2,087)	\$	\$ (2,087)	\$ 110,644
185,556	15,000	200,556	200,556
\$ 183,469	\$ 15,000	\$ 198,469	\$ 311,200
\$ 225,000	\$	\$ 0	\$ 468,433
421,488		225,000	919,794
		421,488	421,488
\$ 646,488	\$ 0	\$ 646,488	\$ 1,809,715
\$	\$	\$ 0	\$ 166
\$ 0	\$ 0	\$ 0	\$ 166
\$	\$	\$ 0	\$ 85
		0	97
\$ 0	\$ 0	\$ 0	\$ 182
\$ 829,957	\$ 15,000	\$ 844,957	\$ 2,121,263
\$ 1,081,450	\$ 2,749,758	\$ 3,831,208	\$ 8,581,886
\$ (278,680)	\$ 11,984,805	\$ 11,706,125	\$ 23,742,845

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2001 through September 30, 2003
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2002		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		\$ 785,603	\$ 17,849,977	\$ 18,635,580
Total Aging Cluster			\$ 405,889	\$ 30,266,411	\$ 30,672,300
Medicaid Cluster:					
Direct Program:					
Medical Assistance Program	93.778		\$ 4,436,208,109	\$ 113,266,501	\$ 4,549,474,610
Total Medicaid Cluster			\$ 4,436,208,109	\$ 113,266,501	\$ 4,549,474,610
HIV Cluster:					
Direct Program:					
HIV Emergency Relief Project Grants	93.914		\$	\$ 72,268	\$ 72,268
Total HIV Cluster			\$ 0	\$ 72,268	\$ 72,268
Child Care Cluster					
Pass-Through Program:					
Michigan Family Independence Agency					
Child Care and Development Block Grant	93.575	IA 01-01	\$ (18,824)	\$	\$ (18,824)
Child Care and Development Block Grant	93.575	IA 02-34	534,560	516,482	1,051,042
Child Care and Development Block Grant	93.575	IA 03-06			0
Total Child Care Cluster			\$ 515,736	\$ 516,482	\$ 1,032,218
Direct Programs:					
Public Health and Social Services Emergency Fund	93.003		\$ 1,233,189	\$ 31,925	\$ 1,265,114
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		(19,140)	198,064	178,924
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042			410,704	410,704
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043		(139,338)	859,048	719,710
Special Programs for the Aging - Title IV and Title II - Discretionary Projects	93.048				0
Alzheimer's Disease Demonstration Grants to States	93.051		539		539
National Family Caregiver Support	93.052		(287,897)	5,534,815	5,246,918
Nutrition Services Incentive Program	93.053				0
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		387,323		387,323
Maternal and Child Health Federal Consolidated Programs	93.110		114,965	1,030,874	1,145,839
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		342,430	792,631	1,135,061
Primary Care Services - Resource Coordination and Development (State Primary Care Offices)	93.130		133,739	116,948	250,687
Injury Prevention and Control Research and State and Community Based Programs	93.136		279,427	1,473,724	1,753,151
Projects for Assistance in Transition from Homelessness (PATH)	93.150		994,598		994,598
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153			999,740	999,740
Health Program for Toxic Substances and Disease Registry	93.161		308,460	59,044	367,504
National Health Service Corps Loan Repayment Program	93.162				0
Grants for State Loan Repayment	93.165			717,510	717,510
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		507,270	354,414	861,684
Human Health Studies - Applied Research and Development	93.206				0
Family Planning - Services	93.217		537,227	6,728,153	7,265,380
Traumatic Brain Injury - State Demonstration Grant Program	93.234		(9,787)	198,141	188,354
Abstinence Education	93.235		410,638	1,596,396	2,007,034

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2003

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 782,429	\$ 18,143,926	\$ 18,926,355	\$ 37,561,935
\$ 503,749	\$ 30,128,731	\$ 30,632,480	\$ 61,304,780
\$ 4,670,485,788	\$ 101,768,397	\$ 4,772,254,185	\$ 9,321,728,795
\$ 4,670,485,788	\$ 101,768,397	\$ 4,772,254,185	\$ 9,321,728,795
\$	\$ 62,732	\$ 62,732	\$ 135,000
\$ 0	\$ 62,732	\$ 62,732	\$ 135,000
\$	\$	\$ 0	\$ (18,824)
(27,201)		(27,201)	1,023,841
467,196	111,389	578,585	578,585
\$ 439,995	\$ 111,389	\$ 551,384	\$ 1,583,602
\$ 186,808	\$ 2,668,872	\$ 2,855,680	\$ 4,120,794
(28,987)	190,672	161,685	340,609
	444,413	444,413	855,117
(71,085)	825,481	754,396	1,474,106
5,000		5,000	5,000
14,906	246,050	260,956	261,495
(500,513)	5,438,771	4,938,258	10,185,176
	4,208,646	4,208,646	4,208,646
741,776		741,776	1,129,099
92,377	1,408,226	1,500,603	2,646,442
178,813	679,294	858,107	1,993,168
109,741	129,172	238,913	489,600
448,744	1,718,048	2,166,792	3,919,943
885,330		885,330	1,879,928
(68,571)	1,135,742	1,067,171	2,066,911
298,534	25,862	324,396	691,900
314,717		314,717	314,717
216,602	86,908	303,510	1,021,020
470,714	326,500	797,214	1,658,898
77,906		77,906	77,906
788,757	6,853,714	7,642,471	14,907,851
(3,888)	202,002	198,114	386,468
(61,932)	1,758,378	1,696,446	3,703,480

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2001 through September 30, 2003
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2002		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238		\$ 147,152	\$ 186,660	\$ 333,812
State Rural Hospital Flexibility Program	93.241			479,084	479,084
Mental Health Research Grants	93.242				0
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243				0
Universal Newborn Hearing Screening	93.251		(23,443)	108,290	84,847
Occupational Safety and Health Research Grants	93.262		195,251	130,708	325,959
Immunization Grants	93.268		1,123,513	6,194,490	7,318,003
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		5,232,202	6,872,964	12,105,166
Small Rural Hospital Improvement Grants	93.301				0
Developmental Disabilities Basic Support and Advocacy Grants	93.630		1,164,570	828,234	1,992,804
Developmental Disabilities Projects of National Significance	93.631		41,214	57,000	98,214
State Children's Insurance Program	93.767		39,570,804		39,570,804
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		305,966	512,296	818,262
Grants to States for Operation of Offices of Rural Health	93.913		(19,822)	106,055	86,233
HIV Care Formula Grants	93.917		7,219,011	4,559,944	11,778,955
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919		1,705,166	7,218,198	8,923,364
HIV Prevention Activities - Health Department Based	93.940		1,783,637	4,957,292	6,740,929
HIV Demonstration, Research, Public and Professional Education Projects	93.941			24,811	24,811
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		530,026	1,914,918	2,444,944
Assistance Programs for Chronic Disease Prevention and Control	93.945		225,263	48,078	273,341
Demonstration Grants to States with Respect to Alzheimer's Disease	93.951		47,909		47,909
Block Grants for Community Mental Health Services	93.958		12,733,899	204,362	12,938,261
Block Grants for Prevention and Treatment of Substance Abuse	93.959		10,093,329	48,542,174	58,635,503
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		905,029	1,975,160	2,880,189
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		548,196	289,735	837,931
Preventive Health and Health Services Block Grant	93.991		1,118,681	4,452,661	5,571,342
Maternal and Child Health Services Block Grant to the States	93.994		275,478	21,662,833	21,938,311
Client Demonstration Project (CDP) - Evaluation of HIV/AIDS Service Programs	93 (3)		(1,425)	197,845	196,420
Implementation of Uniform Alcohol and Drug Abuse Data Collection System	93 (3)		46,304		46,304
State Demand and Needs Assessment Study	93 (3)		(66,626)	243,631	177,005
Vital Statistics Cooperative Study	93 (3)		457,341		457,341
National Death Index	93 (3)		45,834		45,834
Social Security Administration - Birth Enumeration	93 (3)		208,145		208,145
Social Security Administration - Death Records	93 (3)		47,542		47,542
Total Direct Programs			\$ 90,453,789	\$ 132,869,554	\$ 223,323,343
Pass-Through Programs:					
Michigan Family Independence Agency					
Temporary Assistance for Needy Families	93.558	NONE ASSIGNED	\$ (20,202)	\$	\$ (20,202)
Temporary Assistance for Needy Families	93.558	NONE ASSIGNED	14,720,827		14,720,827
Temporary Assistance for Needy Families	93.558	IA 02-02		4,000	4,000
Temporary Assistance for Needy Families	93.558	IA 02-35		521,660	521,660
Total Temporary Assistance for Needy Families			\$ 14,700,625	\$ 525,660	\$ 15,226,285

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2003

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 291,542	\$ 242,579	\$ 534,121	\$ 867,933
(27)	570,995	570,968	1,050,052
	7,105	7,105	7,105
149,291	287,726	437,017	437,017
10,093	150,334	160,427	245,274
174,868	33,000	207,868	533,827
1,781,505	6,379,683	8,161,188	15,479,191
12,375,154	15,433,913	27,809,067	39,914,233
	307,598	307,598	307,598
1,382,214	1,241,929	2,624,143	4,616,947
1,778		1,778	99,992
61,636,277		61,636,277	101,207,081
333,680	541,724	875,404	1,693,666
	58,867	58,867	145,100
9,383,204	4,982,930	14,366,134	26,145,089
1,167,749	8,674,675	9,842,424	18,765,788
201,485	6,939,610	7,141,095	13,882,024
		0	24,811
368,902	1,870,542	2,239,444	4,684,388
274,977	74,139	349,116	622,457
	12,000	12,000	59,909
13,596,394	181,927	13,778,321	26,716,582
14,027,323	45,292,191	59,319,514	117,955,017
664,466	2,332,270	2,996,736	5,876,925
584,666	337,208	921,874	1,759,805
898,924	4,217,504	5,116,428	10,687,770
461,202	20,371,465	20,832,667	42,770,978
7	190,650	190,657	387,077
39,527		39,527	85,831
	(2,570)	(2,570)	174,435
440,460		440,460	897,801
95,862		95,862	141,696
213,477		213,477	421,622
57,225		57,225	104,767
\$ 124,707,974	\$ 149,076,745	\$ 273,784,719	\$ 497,108,062
\$ (3,758)	\$ 3,387	\$ (3,758)	\$ (23,960)
15,558,723		15,562,110	30,282,937
		0	4,000
(126,198)		(126,198)	395,462
\$ 15,428,767	\$ 3,387	\$ 15,432,154	\$ 30,658,439

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2001 through September 30, 2003
Continued

Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2002		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Michigan Family Independence Agency					
Child Support Enforcement	93.563	00IA44	\$ (6,683)	\$	\$ (6,683)
Child Support Enforcement	93.563	02IA05	214,976		214,976
Child Support Enforcement	93.563	02IA05			0
Total Child Support Enforcement			<u>\$ 208,293</u>	<u>\$ 0</u>	<u>\$ 208,293</u>
Michigan Family Independence Agency					
Social Services Block Grant	93.667	03-IA-23	\$	\$	\$ 0
Total Social Services Block Grant			<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Michigan Department of Education					
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	012770 Infrastructure	\$ 18,454	\$	\$ 18,454
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	022770AidsInfra102	84,599		84,599
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	032770 CSHP03			0
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	012760-EXP	8,178		8,178
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	022760 AIDS/EXP102	2,989		2,989
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	012750/MDCHDHAS	1,818	182	2,000
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	012750-HIV	3,103		3,103
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	027750-AIDS102			0
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	022750-HAPIS			0
Total Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems			<u>\$ 119,141</u>	<u>\$ 182</u>	<u>\$ 119,323</u>
Emory University					
Biometry and Risk Estimation - Health Risks from Environmental Exposures	93.115	20031906	\$ 0	\$ 0	\$ 0
Wayne State University					
Wayne State University - Seer (Surveillance, Epidemiology, and End Results) Data	93 (3)	Y-286871	\$	\$	\$ 0
Total Pass-Through Programs			<u>\$ 15,028,059</u>	<u>\$ 525,842</u>	<u>\$ 15,553,901</u>
Total U.S. Department of Health and Human Services			<u>\$ 4,542,611,582</u>	<u>\$ 277,517,058</u>	<u>\$ 4,820,128,640</u>
<u>U. S. Corporation for National and Community Service</u>					
Direct Programs:					
Retired and Senior Volunteer Program	94.002		\$	\$ 6,000	\$ 6,000
Foster Grandparent Program	94.011		1,420	16,677	18,097
Senior Companion Program	94.016			18,024	18,024
Total U.S. Corporation for National and Community Service			<u>\$ 1,420</u>	<u>\$ 40,701</u>	<u>\$ 42,121</u>
Total Financial Assistance			<u>\$ 4,643,757,830</u>	<u>\$ 351,341,065</u>	<u>\$ 4,995,098,895</u>

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For the Fiscal Year Ended September 30, 2003

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$	\$	\$ 0	\$ (6,683)
(11,682)		(11,682)	203,294
185,111	66,000	251,111	251,111
<u>\$ 173,429</u>	<u>\$ 66,000</u>	<u>\$ 239,429</u>	<u>\$ 447,722</u>
\$ 26,088	\$	\$ 26,088	\$ 26,088
<u>\$ 26,088</u>	<u>\$ 0</u>	<u>\$ 26,088</u>	<u>\$ 26,088</u>
\$	\$	\$ 0	\$ 18,454
18,713		18,713	103,312
	52,367	52,367	52,367
		0	8,178
19,638		19,638	22,627
		0	2,000
		0	3,103
24,291		24,291	24,291
2,000	23,000	25,000	25,000
<u>\$ 64,642</u>	<u>\$ 75,367</u>	<u>\$ 140,009</u>	<u>\$ 259,332</u>
\$ 12,860	\$ 0	\$ 12,860	\$ 12,860
\$	\$ (6,300)	\$ (6,300)	\$ (6,300)
<u>\$ 15,705,786</u>	<u>\$ 138,454</u>	<u>\$ 15,844,240</u>	<u>\$ 31,398,141</u>
<u>\$ 4,811,843,292</u>	<u>\$ 281,286,448</u>	<u>\$ 5,093,129,740</u>	<u>\$ 9,913,258,380</u>
\$	\$ 0	\$ 0	\$ 6,000
	10,597	10,597	28,694
	10,440	10,440	28,464
<u>\$ 0</u>	<u>\$ 21,037</u>	<u>\$ 21,037</u>	<u>\$ 63,158</u>
<u>\$ 4,904,977,556</u>	<u>\$ 351,747,573</u>	<u>\$ 5,256,725,129</u>	<u>\$ 10,251,824,024</u>

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2001 through September 30, 2003
Continued

			For the Fiscal Year Ended September 30, 2002		
Federal Agency/Program or Cluster	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Nonfinancial Assistance</u>					
<u>U.S. Department of Agriculture</u>					
Direct Program:					
Food Donation	10.550		\$ 18,095	\$	\$ 18,095
Total U.S. Department of Agriculture			\$ 18,095	\$ 0	\$ 18,095
<u>U.S. Department of Health and Human Services</u>					
Direct Programs:					
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		\$ 15,000	\$	\$ 15,000
Immunization Grants	93.268		30,139,071		30,139,071
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		335,000		335,000
HIV Prevention Activities - Health Department Based	93.940		79,634		79,634
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		78,838		78,838
Preventive Health and Health Services Block Grant	93.991		85,700		85,700
Total U.S. Department of Health and Human Services			\$ 30,733,243	\$ 0	\$ 30,733,243
Total Nonfinancial Assistance			\$ 30,751,338	\$ 0	\$ 30,751,338
Total Expenditures of Federal Awards			\$ 4,674,509,168	\$ 351,341,065	\$ 5,025,850,233

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Community Health and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the accounts presented in, or used in the preparation of, the financial schedules.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) CFDA number not available. Number derived from the federal agency number and grant or control number, if available.

For the Fiscal Year Ended September 30, 2003

Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
\$ 17,993	\$	\$ 17,993	\$ 36,088
\$ 17,993	\$ 0	\$ 17,993	\$ 36,088
\$ 36,664,827	\$	\$ 0 36,664,827	\$ 15,000 66,803,898
69,699		0 69,699	335,000 149,333
210,487 94,278		210,487 94,278	289,325 179,978
\$ 37,039,291	\$ 0	\$ 37,039,291	\$ 67,772,534
\$ 37,057,284	\$ 0	\$ 37,057,284	\$ 67,808,622
\$ 4,942,034,840	\$ 351,747,573	\$ 5,293,782,413	\$ 10,319,632,646

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INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE AND INTERNAL CONTROL



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

April 16, 2004

Ms. Janet Olszewski, Director
Department of Community Health
Lewis Cass Building
Lansing, Michigan

Dear Ms. Olszewski:

We have audited the financial schedules of the Department of Community Health for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents, and have issued our report thereon dated April 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the Department's ability

to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 2 through 5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal line extending from the start of the name.

Thomas H. McTavish, C.P.A.
Auditor General



STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

April 16, 2004

Ms. Janet Olszewski, Director
Department of Community Health
Lewis Cass Building
Lansing, Michigan

Dear Ms. Olszewski:

Compliance

We have audited the compliance of the Department of Community Health with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the two-year period ended September 30, 2003. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our

opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Community Health complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the two-year period ended September 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs in Findings 6 through 14.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 6 through 13.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a long horizontal line extending from the start of the name.

Thomas H. McTavish, C.P.A.
Auditor General

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued: Unqualified*

Internal control* over financial reporting:

Material weakness* identified? No

Reportable conditions* identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? Yes

* See glossary at end of report for definition.

Identification of major programs:

<i>CFDA</i> Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
16.579	Byrne Formula Grant Program
93.044 and 93.045	Aging Cluster
93.052	National Family Caregiver Support
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.778	Medicaid Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between type A and type B programs: \$30,000,000

Auditee qualified as a low-risk auditee*? No

* See glossary at end of report for definition.

Section II: Findings Related to the Financial Schedules

FINDING (390401)

1. Biennial Internal Control Assessment

The Department of Community Health's (DCH's) biennial internal control assessment was materially noncompliant with State requirements. DCH omitted material portions of DCH's activities from its assessment process, failed to identify material weaknesses for activities included in the assessment, did not take steps to correct material weaknesses reported in the previous assessment process, and did not consider material weaknesses identified by external sources when completing the assessment process.

State law requires the head of each principal department to establish and maintain an internal accounting and administrative control system (i.e., internal control). State law also requires the head of each principal department to report biennially on any material inadequacy or weakness discovered in connection with the evaluation of the system. The biennial risk assessment process allows the department to identify and correct significant deficiencies in internal control. The State Budget Director developed guidance, entitled *Evaluation of Internal Controls - A General Framework and System of Reporting*, for use by the principal departments in performing and reporting upon evaluations of their internal control systems.

DCH completed a biennial internal control assessment for fiscal year 2001-02. Our review of the assessment process disclosed:

- a. DCH did not require all managers of departmental activities to document internal control for their respective areas of responsibility. As a result, DCH's biennial assessment omitted material portions of its activities, including 6 of 7 major divisions and 8 of 10 major federal programs.
- b. DCH assessment activities failed to identify material weaknesses in the internal control of one of the assessable units included in the biennial assessment.

An audit conducted concurrently by the Office of the Auditor General (OAG) disclosed material weaknesses in the internal control over the assessable

unit's equipment and furnishings and purchasing activities. These material control weaknesses were not identified in DCH's biennial assessment.

- c. DCH did not take steps to correct a material weakness reported in the previous biennial assessment process.

The previous biennial assessment, completed for fiscal year 1999-2000, noted that DCH did not monitor its controls. This control weakness was also reported in a prior OAG Single Audit* report. In response to the prior OAG audit report, DCH indicated that it would form focus groups to document and evaluate the effectiveness of its monitoring procedures. However, at the time of our audit, DCH had not formed the focus groups.

- d. DCH did not consider material weaknesses identified by external sources (e.g., OAG audits) when completing the assessment process for the fiscal year 2001-02 biennial assessment.

RECOMMENDATION

We recommend that DCH improve its biennial internal control assessment process to ensure compliance with State requirements.

FINDING (390402)

2. Internal Control Over Financial Reporting and Accounting

DCH's internal control did not prevent certain reporting and accounting errors. As a result, errors occurred in DCH's financial schedules, notes to the financial schedules, and supplemental financial schedules.

Our audit disclosed:

- a. DCH's internal control over financial reporting did not ensure that its schedule of expenditures of federal awards (SEFA) was accurately prepared. As a result, DCH could not verify the accuracy of the amounts it classified as directly expended or distributed to subrecipients*.

* See glossary at end of report for definition.

DCH procedures did not ensure that it could accurately identify federal awards that it passed through to subrecipients. The Department of Management and Budget's (DMB's) Financial Reporting and Accounting Manual (FRAM) requires that the SEFA must be reconcilable to the information contained in DCH's financial schedules and requires DCH to identify in its accounts all federal awards received and expended and the federal programs under which they were received. This includes amounts directly expended by DCH and amounts that DCH distributes to its subrecipients.

We reviewed the reconciliation methodology used by DCH to identify subrecipients to verify the amounts that DCH reported as distributed to subrecipients. DCH's reconciliation methodology was incomplete and, in some instances, inaccurate. We noted that DCH initially misclassified approximately \$81.8 million and \$87.8 million during fiscal years 2002-03 and 2001-02, respectively, as being distributed to subrecipients when the funds were directly expended by DCH. As a result of our audit, DCH subsequently corrected the errors.

- b. DCH's internal control over accounting did not prevent errors in the reporting of intrafund expenditure reimbursements and expenditure credits, long-term deferred revenue, and one contingent liability in DCH's notes to its financial schedules. Our review disclosed:
 - (1) DCH understated intrafund expenditure reimbursements and expenditure credits by approximately \$37.0 million and \$39.0 million for fiscal years 2002-03 and 2001-02, respectively.
 - (2) DCH initially excluded approximately \$55.5 million and \$35.2 million of long-term deferred revenue from DCH's schedule of certain General Fund assets and liabilities.
 - (3) DCH did not initially disclose its contingent liability related to the Biopart lawsuit.

These reporting errors occurred because DCH did not reconcile the information reported in the financial schedules and disclosures with each other and supporting documentation. Also, DCH did not require a separate review

of the financial schedules and disclosures for accuracy. As a result of our audit, DCH subsequently corrected the errors.

- c. DCH's internal control over accounting did not include a reconciliation of invoices from First Health Services Corporation (FHSC) to the underlying claims files. Although DCH has alternative practices that attempt to compensate for the lack of a reconciliation, DCH could not document that its payments for Medicaid pharmaceutical costs of approximately \$1.5 billion during our audit period were complete and accurate.

The State contracted with FHSC to process Medicaid pharmacy claims. FHSC processed payments for pharmacy claims and provided DCH with weekly claims files of paid pharmacy claims. DCH paid the invoices to FHSC without comparing them to the weekly claims files supplied by FHSC.

To ensure that the recording of an expenditure transaction is complete and accurate, accounting practices should include reconciliation of invoices supplied by vendors to underlying supporting documentation.

- d. DCH's internal control over accounting did not properly account for federal funds passed through to the Department of Corrections (DOC). As a result, DCH overstated expenditures and revenues for fiscal years 2002-03 and 2001-02 by \$1.7 million and \$2.4 million, respectively.

DCH passed through federal funds to DOC totaling \$1.7 million for three programs and \$2.4 million for four programs in fiscal years 2002-03 and 2001-02, respectively. Although the program funds were appropriated to DCH, DOC incurred the related program expenditures and was responsible for the determination of compliance for these programs. State accounting policy requires the agency required to determine compliance (i.e., DOC) to recognize both the expenditure and revenue.

- e. DCH's internal control over accounting did not prevent DCH from recording numerous accounting transactions during our audit period that needed adjustment.

During our audit of the *State of Michigan Comprehensive Annual Financial Report* for fiscal years 2002-03 and 2001-02, we noted numerous transactions

that needed adjustment. In the absence of these adjustments, federal receivables and federal revenues would have been understated by \$4.2 million and overstated by \$4.8 million for fiscal years 2002-03 and 2001-02, respectively; payables would have been understated by \$10.7 million and overstated by \$13.0 million for fiscal years 2002-03 and 2001-02, respectively; and expenditures would have been understated by \$11.2 million and overstated by \$13.0 million for fiscal years 2002-03 and 2001-02, respectively. DCH subsequently corrected the errors.

RECOMMENDATION

We recommend that DCH improve its internal control to prevent reporting and accounting errors.

FINDING (390403)

3. Receipts Processing Controls

DCH's internal control over its cash receipting process did not ensure separation of duties for cash receipts. DCH received approximately \$536 million during the audit period, including approximately \$267,000 in cash.

DMB Administrative Guide procedure 1270.02 requires DCH to maintain adequate control over the cash receipting process to ensure that complete control of cash receipts is not entrusted to one employee.

DCH procedures require two employees to be present to open mail. However, DCH's procedures allow one employee to independently open and log certain types of receipts while a second employee opens and logs other receipts. Following these procedures entrusted the complete control of cash receipts, depending on the type of payment, to one employee.

RECOMMENDATION

We recommend that DCH improve internal control over its cash receipting process.

FINDING (390404)

4. Controls Over Procurement Card* Usage

DCH's internal control did not ensure that procurement card users complied with State procurement card policies and procedures. As a result, DCH did not have assurance that procurement card purchases were allowable and authorized.

DCH made 23,493 purchases that totaled approximately \$4.8 million during the audit period. We identified purchases that may not have been in compliance with State procurement card procedures.

We tested 31 of these purchases and noted 2 (6%) exceptions in which DCH used the procurement card for purchases prohibited by State procedures. Also, DCH did not obtain and retain copies of merchandise receipts, as required by State procedures, to support 4 (13%) procurement card purchases. In addition, DCH did not obtain all signatures or approvals required by State procedures that show that DCH authorized 3 (10%) of the procurement card purchases. For the 3 purchases, the cardholders' signatures and/or their supervisors' approval were not evident on receipts, purchase logs, or billing details.

To help ensure that procurement card purchases are appropriate and authorized, State procedures require that the cardholder sign the purchase log and that the supervisor certify or approve the purchase log.

RECOMMENDATION

We recommend that DCH improve its internal control to ensure that procurement card users comply with State procurement card policies and procedures.

FINDING (390405)

5. Payroll Controls

DCH did not comply with established controls over payroll expenditures. As a result, DCH did not ensure that its employees completed all semiannual certifications and personnel activity reports.

* See glossary at end of report for definition.

State law requires that DCH establish and maintain an internal accounting and administrative control system, including a system of authorization and recordkeeping procedures to control expenditures.

Federal regulations require DCH to prepare semiannual certifications for employees who work solely on a single federal award. Federal regulations also require DCH to prepare personnel activity reports to distribute employees' salaries or wages when employees work on multiple activities.

We tested 24 employees' personnel activity reports for compliance with federal and State payroll-related requirements. We noted that 17 of the 24 employees were required to have semiannual certifications and 5 of the 24 employees worked on multiple activities and were required to prepare personnel activity reports to distribute their salaries or wages.

Our review disclosed:

- a. DCH did not initially obtain semiannual certifications for 3 (18%) of the 17 employees who worked on a single federal grant award. One of the 3 semiannual certifications was obtained subsequent to the completion of our review.
- b. DCH did not require 4 (80%) of the 5 employees who worked on multiple activities to distribute their salaries or wages on personnel activity report.
- c. DCH could not locate 2 (8%) of the 24 required personnel activity reports.

RECOMMENDATION

We recommend that DCH comply with established controls over payroll expenditures.

The status of the findings related to the financial schedules that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs* Related to Federal Awards

FINDING (390406)

6. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program), CFDA 10.557

U.S. Department of Agriculture	CFDA 10.557: Special Supplemental Nutrition Program for Women, Infants, and Children
Award Number: 4W1011 4W1011 4W1011 2001IW100342, I2100642	Award Period: 02/14/1996 - 09/30/2002 01/01/2000 - 09/30/2002 01/21/2000 - 09/30/2001 10/01/2000 - 09/30/2001
4W1011 2002IW100342, IW100642 4W1011 4W1011 2003IW100642, IW100342	08/01/2001 - 09/30/2005 10/01/2001 - 09/30/2002 10/01/2001 - 09/30/2003 09/29/2002 - 09/30/2003 10/01/2002 - 09/30/2003
	Questioned Costs: None

DCH's internal control over the WIC Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of WIC Program awards.

Total WIC Program expenditures during the two-year audit period were approximately \$236.6 million, including approximately \$49.5 million distributed to WIC Program subrecipients.

Our exceptions, by compliance area, are as follows:

Subrecipient Monitoring

DCH did not comply with its requirements pertaining to the timeliness and completeness of its monitoring-related communications with its subrecipients.

DCH monitored WIC Program subrecipients by performing site visits. DCH

* See glossary at end of report for definition.

procedures require WIC Program staff to report the results of their site visits to the subrecipients within 45 days of the completion of the site visit. The site visit report is to include strengths, suggestions, deficiencies, and actions required to correct the deficiencies regarding allowable activities, allowable costs, eligibility, financial reporting, and food instrument dispositions. DCH requires subrecipients to develop and submit a corrective action plan for the deficiencies noted in the site visit report within 45 days of receipt of the report by the subrecipients. DCH also requires WIC Program staff to review the corrective action plans and approve them as applicable.

Our audit procedures disclosed the following related to subrecipient monitoring compliance and controls:

- (1) DCH did not issue management evaluation reports to subrecipients in a timely manner.

DCH did not provide management evaluation reports for 34 (85%) of 40 site visits completed during the audit period within 45 days as required by DCH procedures. Two (6%) of the 34 evaluation reports were issued subsequent to the completion of our review of the program. On average, DCH was approximately 65 days late issuing the 34 evaluation reports, ranging from 1 to 409 days late.

- (2) DCH did not ensure that WIC Program subrecipients submitted corrective action plans.

Five (13%) of 38 subrecipients that received management evaluation reports from DCH did not submit a corrective action plan. Also, 11 (33%) of the 33 corrective action plans that were submitted were not received by DCH within 45 days as required by DCH procedures. On average, these corrective action plans were submitted 24 days late, ranging from 2 to 173 days late.

- (3) In our review of 6 of the 33 corrective action plans submitted by subrecipients, WIC Program staff did not approve or deny 2 (33%).

RECOMMENDATION

We recommend that DCH improve its internal control over the WIC Program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING (390407)

7. Byrne Formula Grant Program, CFDA 16.579

U.S. Department of Justice	CFDA 16.579: Byrne Formula Grant Program
Award Number: 1999-DB-BX-0026 1999-DB-BX-0048 2000-DB-MU-0026 2001-DB-MU-0026 2002-DB-BX-0026	Award Period: 10/01/1998 - 09/30/2002 02/01/1999 - 01/31/2002 10/01/1999 - 09/30/2003 10/01/2000 - 09/30/2004 10/01/2001 - 09/30/2005
	Questioned Costs: \$243,537

DCH's internal control over the Byrne Formula Grant Program did not ensure compliance with federal laws and regulations regarding certain activities related to allowable costs/cost principles and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Byrne Formula Grant Program awards.

DCH distributed \$16,284,773 and \$16,871,321 in Byrne Formula Grant Program funds to 144 and 134 subrecipients in fiscal years 2002-03 and 2001-02, respectively.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DCH did not obtain a semiannual certification for one employee who worked solely on the Byrne Formula Grant Program. Also, DCH did not require 4 (80%) of 5 employees who worked on multiple activities to distribute their salaries or wages on personnel activity reports. Associated questioned costs are \$243,537. This finding is included in Section II of the schedule of findings and questioned costs (390405, item b.).

b. Subrecipient Monitoring

In some instances, DCH did not effectively monitor subrecipient compliance with selected federal requirements. We noted:

- (1) DCH did not have adequate procedures to monitor subrecipient compliance with federal allowable cost requirements.

DCH stated that it relies on Single Audits of its subrecipients for monitoring of subrecipient allowable costs. However, for the two most recent fiscal years available (fiscal years 2000-01 and 2001-02), 21 (70%) of 30 subrecipients either did not obtain a Single Audit or did not obtain a Single Audit that included major program testing of the Byrne Formula Grant Program. Therefore, DCH had no basis for reliance on Single Audits of those subrecipients and should develop other methods to monitor compliance with subrecipient allowable cost requirements.

The 21 subrecipients received \$4,507,371 in federal funds during our audit period.

- (2) DCH did not perform regular site visits of its Byrne Formula Grant subrecipients as required by DCH procedures.

DCH procedures require a site visit of each subrecipient at least once during the grant award period as part of its subrecipient monitoring process. Site visits consist of an assessment of the accuracy and timeliness of subrecipient reporting and an assessment of the grantee's performance under the grant.

DCH issues four-year Byrne Formula Grants on an annual basis. In the last four years, DCH issued approximately 520 grants, including 278 grants during our audit period. Site visit data and estimates provided by DCH indicate that DCH performed only 32 (6%) site visits during our two-year audit period.

RECOMMENDATION

We recommend that DCH improve its internal control over the Byrne Formula Grant Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

FINDING (390408)

8. Aging Cluster, CFDA 93.044 and 93.045, and National Family Caregiver Support, CFDA 93.052

U.S. Department of Health and Human Services	CFDA 93.044 and 93.045: Aging Cluster
Award Number: 02-01-AA-MI-1320 02-01-AA-MI-1712 02-01-AA-MI-1713 02-02-AA-MI-1320 02-02-AA-MI-1712 02-02-AA-MI-1713 02-03-AA-MI-1320 02-03-AA-MI-1712 02-03-AA-MI-1713	Award Period: 10/01/2000 - 09/30/2001 10/01/2000 - 09/30/2001 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2001 - 09/30/2002 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003
	Questioned Costs: \$54,048

U.S. Department of Health and Human Services	CFDA 93.052: National Family Caregiver Support
Award Number: 02-01-AA-MI-1719 02-02-AA-MI-1719 02-03-AA-MI-1719	Award Period: 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003
	Questioned Costs: None

DCH's internal control over the Aging Cluster and the National Family Caregiver Support Program did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Aging Cluster awards and National Family Caregiver Support Program awards.

During the two-year audit period, DCH distributed \$60,395,142 of Aging Cluster funds and \$10,973,586 of National Family Caregiver Support Program funds to 16 subrecipients.

Our exceptions, by compliance area, are as follows:

a. Reporting

DCH did not report \$4,512,488 in program income earned by subrecipients to the Administration on Aging, U.S. Department of Health and Human Services (HHS), in fiscal year 2001-02.

Title 45, Part 92, section 25 of the *Code of Federal Regulations (CFR)* defines program income as income from fees for services performed and other gross income received by the grantee or subgrantee directly generated by a grant supported activity or earned as a result of the grant agreement during the grant period. Also, federal regulation 45 *CFR* 92.41 (b) requires DCH to use financial status reports to report on the status of funds, including program income, for all grants. As it relates to the Aging Cluster and the National Family Caregiver Support Program, program income includes nominal donations by eligible State residents for delivered meals or meals provided in congregated settings.

In fiscal year 2001-02, subrecipients reported \$13,217,436 in State and federal program income on their financial status reports. However, DCH reported only \$8,704,948 in State and federal program income on the fiscal year 2001-02 final financial status report. DCH did not report the difference of \$4,512,488 (34%) because of DCH's practice of selecting only 3 of 10 nonfederal program income sources reported by the subrecipients. Reporting deadlines for fiscal year 2002-03 had not occurred as of our review.

b. Subrecipient Monitoring

In some instances, DCH procedures did not ensure that DCH effectively monitored subrecipient compliance with selected federal requirements. We noted:

- (1) DCH did not have adequate procedures to monitor subrecipient compliance with federal allowable cost requirements.

DCH stated that it relies on Single Audits of its 16 subrecipients for monitoring of subrecipient allowable costs. However, for the two most recent fiscal years available (fiscal years 2001-02 and 2000-01), the audit scopes of 4 (25%) of 16 subrecipient audit reports did not include major program testing of the Aging Cluster programs and 11 (69%) of 16 subrecipient audit reports did not include major program testing of the National Family Caregiver Support Program. Therefore, DCH had no basis for reliance on Single Audits for those subrecipients and should develop other methods to monitor compliance with subrecipient allowable cost requirements.

The 12 subrecipients associated with the 4 and 11 exceptions received federal funds of \$15.1 million (22%) of the \$68.2 million for the Aging Cluster Programs and the National Family Caregiver Support Program during our audit period.

- (2) DCH subrecipient monitoring procedures over cash management compliance requirements did not identify subrecipients that received cash in excess of immediate needs from the Aging Cluster and National Family Caregiver Support Program. Subrecipients with cash in excess of their immediate needs have not complied with federal cash control requirements.

Based on fiscal year 2002-03 and 2001-02 cash-on-hand information provided by subrecipients on a monthly basis, 5 (31%) of 16 and 8 (50%) of 16 subrecipients, respectively, kept cash on hand in excess of immediate needs.

- (3) DCH subrecipient monitoring procedures did not verify the accuracy and completeness of program income reported by subrecipients. DCH correspondingly reports program income to the federal government. However, the lack of monitoring of subrecipient reporting to DCH does not ensure the accuracy and completeness of DCH's reporting to the federal government.

Subrecipients reported program income of \$13.2 million in fiscal year 2001-02.

- (4) DCH subrecipient monitoring procedures did not identify subrecipients that did not comply with earmarking requirements for certain Aging Cluster funds set forth in the State Plan for Michigan, which is approved by the HHS Administration on Aging. The State Plan includes a resource allocation plan for use of Aging Cluster funds administered and distributed by the state agency. The State Plan earmarked 50% of certain Aging Cluster funds for access, in-home, and legal services. Within the 50%, a minimum of 8% must be expended for access services, 18% for in-home services, and 5% for legal services.

For fiscal year 2001-02, 4 (25%) of 16 subrecipients did not comply with the earmarking requirements. Two subrecipients fell short of spending the required amounts for access services by \$3,556. The other 2 subrecipients fell short of spending the required amounts for in-home services by \$50,492. In one of these instances, the subrecipient expended none of the approximately \$20,000 required for in-home services. Reporting deadlines for fiscal year 2002-03 had not occurred as of the date of our review.

The amounts in noncompliance with earmarking requirements, totaling \$54,048, are questioned costs.

RECOMMENDATION

We recommend that DCH improve its internal control over the Aging Cluster and the National Family Caregiver Support Program to ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

FINDING (390409)

9. Immunization Grants, CFDA 93.268

U.S. Department of Health and Human Services	CFDA 93.268: Immunization Grants
Award Number: H23/CCH504477-10 H23/CCH504477-11 H23/CCH504477-11-D.A. H23/CCH504477-12 H23/CCH504477-12-D.A. H23/CCH522556-01 H23/CCH522556-01-D.A.	Award Period: 10/01/1999 - 12/31/2000 01/01/2001 - 12/31/2001 01/01/2001 - 12/31/2001 01/01/2002 - 12/31/2002 01/01/2002 - 12/31/2002 01/01/2003 - 12/31/2003 01/01/2003 - 12/31/2003
	Questioned Costs: \$28,056

DCH's internal control over the Immunization Grants Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring. Also, in some instances, DCH did not document certain subrecipient monitoring activities.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of the Immunization Grants awards.

DCH distributed financial and nonfinancial assistance of \$82,283,089 in Immunization Grants during the two-year audit period to approximately 45 subrecipients.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DCH's internal control did not prevent noncompliance with allowable cost/cost principle provisions related to payroll costs. As a result, we questioned costs in the amount of \$28,056.

DCH did not obtain a semiannual certification for one employee who worked solely on Immunization Grants. Associated questioned costs are \$28,056. This finding is included in Section II of the schedule of findings and questioned costs (390405, item a.).

b. Subrecipient Monitoring

In some instances, DCH did not effectively monitor subrecipient compliance with selected federal requirements and did not document certain subrecipient monitoring activities. We noted:

- (1) DCH did not have adequate procedures to monitor subrecipient compliance with federal allowable cost requirements.

DCH stated that it relies on Single Audits of its 45 subrecipients for monitoring of subrecipient allowable costs. However, for the two most recent fiscal years available (fiscal years 2001-02 and 2000-01), the Single Audit scopes for 40 (89%) of the 45 subrecipients did not include major program compliance testing of the Immunization Grants. Therefore, DCH had no basis for reliance on Single Audits for those subrecipients and should develop other methods to monitor compliance with subrecipient allowable cost and allowable activity requirements.

The 40 subrecipients received \$5.2 million (84%) of the \$6.2 million in federal funds distributed to subrecipients during fiscal year 2001-02.

- (2) DCH procedures did not ensure that DCH reconciled subrecipient inventory reports to DCH inventory records and did not ensure that subrecipients submitted their inventory reports in a timely manner.

The Centers for Disease Control and Prevention (CDC) requires DCH to effectively control and account for the vaccines it distributes to subrecipients. CDC provided DCH with approximately \$36.7 million in vaccines for fiscal year 2002-03 and \$30.1 million in vaccines for fiscal year 2001-02. DCH supplied the vaccines to subrecipients. The subrecipients, in turn, either provide immunization services to clients or supply vaccines to entities that provide immunization services to clients.

To help comply with the CDC requirement to control and account for vaccines, DCH requires each subrecipient to submit a monthly vaccine inventory report. We reviewed the monthly vaccine inventory reports for 12 subrecipients during our audit period. We determined that the subrecipients submitted the reports; however, DCH procedures did not

require DCH to reconcile the amounts reported on the monthly reports to DCH inventory records.

DCH noted that it did not perform reconciliations because the software it uses to distribute and manage the vaccines does not allow DCH to account for vaccines administered in a multi-tiered system (i.e., local health department and private providers). DCH has not implemented an effective alternative to the system limitation and, therefore, did not reconcile inventories.

- (3) DCH did not document its monitoring activities to ensure subrecipient compliance with federal guidelines regarding client vaccinations and eligibility.

CDC guidelines require entities that administer the vaccine (i.e., subrecipients and for-profit private health care providers) to document various critical details about vaccinating clients (date, vaccine type, lot number, etc.) and the eligibility of the client in the client medical charts. DCH performs site visits of entities that administer the vaccine to review various compliance and operational areas, including review of client medical charts for documentation of vaccinations and eligibility. DCH documents its observations in site visit reports.

In the site visit reports, DCH noted that 385 (16%) of 2,350 entities visited did not completely or accurately document the details of vaccinations in clients' medical charts.

We reviewed 20 of the 385 site visit reports. For all 20 site visit reports, DCH did not document whether DCH took steps to ensure the sites' future compliance with vaccination documentation requirements.

Also, in 10 (50%) of the 20 site visit reports DCH concluded that the sites did not always document client eligibility. For all 10 of these site visit reports, DCH did not document whether DCH took steps to ensure the sites' future compliance with eligibility documentation requirements.

- (4) DCH did not document its monitoring activities to ensure that subrecipients complied with federal requirements regarding vaccination fees charged to clients.

CDC guidelines for the Vaccine for Children Program state that entities providing direct immunization services are allowed to charge a maximum administration fee of \$16.75 to clients receiving vaccines under this program. We reviewed the 20 site visit reports discussed in item (3) and noted that 4 site visit reports (20%) showed that the fee charged for administering the vaccine exceeded \$16.75. One of the 4 entities providing direct immunization services reported that its fee for vaccine administration was between \$30.00 and \$60.00. For all 4 sites, DCH did not document whether entities that administered the vaccines corrected their rates.

RECOMMENDATIONS

We recommend that DCH improve its internal control over the Immunization Grants Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

We also recommend that DCH document subrecipient monitoring activities.

FINDING (390410)

10. State Children's Insurance Program (CHIP), CFDA 93.767

U.S. Department of Health and Human Services	CFDA 93.767: State Children's Insurance Program (CHIP)
Award Number: 05-9905MI5021 05-0005MI5021 05-0205MI5R21 05-0105MI5021 05-0205MI5021 05-0305MI5021	Award Period: 10/01/1998 - 09/30/1999 10/01/1999 - 09/30/2000 10/01/2001 - 09/30/2002 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003
	Questioned Costs: \$718,825

U.S. Department of Health and Human Services	CFDA 93.778: Medicaid Cluster
Award Number: 05-0005MI5028 05-0105MI5028 05-0205MI5028 05-0305MI5028 05-0005MI5048 05-0105MI5048 05-0205MI5048 05-0305MI5048	Award Period: 10/01/1999 - 09/30/2000 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/1999 - 09/30/2000 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003
	Questioned Costs: (\$499,263)

DCH's internal control over CHIP did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and eligibility.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of the CHIP awards.

During the two-year audit period, DCH expended approximately \$60.0 million of federal CHIP funds to provide health care coverage for approximately 30,000 children per month.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DCH's accounting did not ensure that a vendor for CHIP had effective internal control over its program efforts. As a result, DCH could not ensure that information and services provided to DCH by the vendor allowed DCH to accurately report program financial information and safeguarded DCH assets.

DCH contracted with the vendor to process applications and make recommendations regarding client eligibility for CHIP. Based on the eligibility determination maintained by the vendor, DCH paid a set monthly per diem amount for each child enrolled in CHIP. Based on the vendor's determinations, DCH expended approximately \$101.2 million during the audit period.

To ensure that the internal control of its vendor was sufficient to ensure that the financial information reported was materially correct and that assets were properly safeguarded, DCH could have performed applicable contract monitoring functions or could have required the vendor to obtain an American Institute of Certified Public Accountants Statement on Auditing Standards No. 70 audit (SAS 70 audit*). DCH did not perform applicable contract monitoring activities and did not require the vendor to obtain a SAS 70 audit.

b. Eligibility

DCH enrolled children in CHIP who were not eligible in accordance with federal regulations. Also, DCH did not refer eligible children to the Healthy Kids Program (HKP). These conditions resulted in a net overexpenditure of \$219,562 of federal funds.

Federal regulation 42 *CFR* 457.320(a) and the State Plan for Michigan require DCH to determine whether children meet CHIP eligibility requirements, which include the age of the child and the income level of the family of the child. Also, children not eligible for CHIP may be eligible for HKP, which provides insurance coverage for children between the ages of 0 and 15 years. As of September 30, 2003 and September 30, 2002, there were approximately 34,000 and 30,000 children, respectively, enrolled in CHIP.

DCH receives approximately 68% of CHIP applications directly from State residents. DCH receives the remaining CHIP applications from the Family Independence Agency (FIA).

* See glossary at end of report for definition.

As shown in the following table, FIA referred 44,050 children to DCH for enrollment into CHIP during the audit period:

	Fiscal Year		Total for Audit Period
	2001-02	2002-03	
Children referred by FIA	21,650	22,400	44,050
Children eligible for CHIP	16,400	17,000	33,400
Children ineligible for CHIP	5,250	5,400	10,650
Children eligible for HKP	4,800	4,900	9,700
Children ineligible for either program	450	500	950

FIA's efforts to refer children to CHIP included a financial eligibility assessment performed by FIA staff. Subsequent to the referral of the children deemed eligible by FIA to CHIP, DCH performed a more detailed review of applicant financial information and determined that 10,650 (24%) of these children were not eligible for CHIP. Of the 10,650 children erroneously enrolled in CHIP, DCH determined that 9,700 (91%) of these children were instead eligible for HKP, which is similar to CHIP but applies to children of lower-income families who qualify for the Medicaid Program. The remaining 950 children were ineligible for either program.

For the audit period, we estimate that DCH overcharged CHIP by \$718,825 and undercharged HKP by \$499,263. These amounts are questioned costs.

RECOMMENDATION

We recommend that DCH improve its internal control over CHIP to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and eligibility.

FINDING (390411)

11. Medicaid Cluster, CFDA 93.778, Internal Control

U.S. Department of Health and Human Services	CFDA 93.778: Medicaid Cluster
Award Number: 05-0005MI5028 05-0005MI5048 05-0105MI5028 05-0105MI5048 05-0205MI5028 05-0205MI5048 05-0305MI5028 05-0305MI5048	Award Period: 10/01/1999 - 09/30/2000 10/01/1999 - 09/30/2000 10/01/2000 - 09/30/2001 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003
	Questioned Costs: \$803,907

DCH's internal control over the Medicaid Cluster did not sufficiently ensure the preparation of reconciliations of a vendor's invoices to underlying claims and the receipt of amounts owed by a hospital to the State and federal government. We identified questioned costs of \$803,907.

Our review disclosed:

- a. DCH controls over accounting did not include a reconciliation of invoices from First Health Services Corporation (FHSC) to the underlying claims files.

This finding is included in Section II of the schedule of findings and questioned costs (390402, item c.).

- b. DCH did not recover amounts owed to the State by a hospital, repay related unearned federally funded Medicaid amounts to the federal government, and refer the accounts receivable to the Michigan Department of Treasury for collection, as required by federal and State regulations. As a result, DCH did not collect \$1,899,121 of amounts owed from the hospital, of which \$803,907 was federally funded and are questioned costs.

Federal regulation 42 *CFR* 433 requires states to take reasonable actions to attempt to recover Medicaid overpayments. States have 60 days from the date of discovery of an overpayment for Medicaid services to recover, or attempt to recover, the overpayment from the provider before the states make

an adjustment in the federal Medicaid payment request. However, DCH did not recover, or attempt to recover, the overpayment from the hospital within 60 days from the date the overpayment was discovered.

In addition, in Michigan, State regulations require referral of delinquent accounts receivable to the Michigan Department of Treasury so that it can enforce payment and collection of those amounts. However, DCH did not refer the amount receivable from the hospital to the Michigan Department of Treasury for collection.

RECOMMENDATION

We recommend that DCH improve its internal control over the Medicaid Cluster to ensure the preparation of reconciliations of vendor invoices to underlying claims and the receipt of amounts owed by hospitals to the State and federal government.

FINDING (390412)

12. Medicaid Cluster, CFDA 93.778, Subrecipient Monitoring

U.S. Department of Health and Human Services	CFDA 93.778: Medicaid Cluster
Award Number: 05-0005MI5028 05-0005MI5048 05-0105MI5028 05-0105MI5048 05-0205MI5028 05-0205MI5048 05-0305MI5028 05-0305MI5048	Award Period: 10/01/1999 - 09/30/2000 10/01/1999 - 09/30/2000 10/01/2000 - 09/30/2001 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003
	Questioned Costs: None

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

OMB Circular A-133 requires DCH to monitor subrecipients' compliance with program requirements and applicable laws and regulations. Effective monitoring of subrecipients by DCH can be accomplished using various methods, depending on the nature and timing of the compliance requirement.

Federal regulations require the states to determine client eligibility for Medicaid services. Federal regulations also require states to operate a Medicaid Eligibility Quality Control (MEQC) system to help ensure the propriety of eligibility determinations using requirements established by the Centers for Medicare and Medicaid Services (CMS).

Through a grant from DCH, FIA is responsible for the determination of client eligibility for the Medicaid Program. DCH entered into an interagency agreement with FIA, which contains the specific requirements of each agency. In addition to determining Medicaid eligibility, the interagency agreement also provided that FIA have an MEQC system to assess FIA eligibility determinations. The MEQC system required the FIA Office of Quality Assurance (OQA) to test a sample of FIA caseworker-determined Medicaid-eligible and Medicaid-denied cases. The OQA sample testing identified cases in which the FIA caseworkers' eligibility determinations were correct (i.e., non-error) or incorrect (i.e., error). FIA reported that its OQA staff performed 1,660 MEQC reviews in fiscal year 2001-02, which resulted in 127 error cases and 1,533 non-error cases. As of our fieldwork, OQA had not yet compiled the number of its reviews for fiscal year 2002-03. DCH monitoring practices included following up selected error cases.

FIA caseworkers processed 532,269 and 555,356 Medicaid applications in fiscal years 2001-02 and 2002-03, respectively.

Our review disclosed the following related to the monitoring of subrecipient efforts to ensure the eligibility of Medicaid clients:

- a. DCH did not document how and whether it resolved MEQC error cases.

DCH stated that it followed up all MEQC error cases. However, DCH did not document its scope and efforts to perform the follow-ups. Also, although DCH had developed a spreadsheet to track selected information about the error cases that it followed up (including sample date, case information, and the type of error noted), DCH was not able to demonstrate how it resolved the error case follow-ups.

- b. DCH did not monitor the propriety of MEQC non-error assessments.

DCH stated that it did no verification or review of non-error cases. Therefore, in fiscal year 2001-02, DCH did not oversee 92% of MEQC eligibility determinations. Fiscal year 2002-03 statistics were not available for this report.

- c. DCH did not monitor the propriety and accuracy of the MEQC Medicaid mispayment error rate.

In determining whether to sanction DCH for excessive eligibility error rates, CMS compares the MEQC Medicaid mispayment error rate calculated by OQA to the federal mispayment tolerance level. In fiscal year 2001-02, the OQA-calculated mispayment error rate of 2.3% was below the federal MEQC Medicaid mispayment tolerance level of 3.0%. However, DCH did not assess the propriety and accuracy of the OQA-calculated mispayment error rates.

Also, the interagency agreement, which was last updated in 1996, did not include federal award information required by OMB Circular A-133. Specifically, the interagency agreement did not include the *CFDA* title and number, the federal award name and number, the award year, or the requirements imposed on FIA by federal laws and regulations.

RECOMMENDATION

We recommend that DCH improve its internal control over the Medicaid Cluster to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING (390413)

13. Medicaid Cluster, CFDA 93.778, Reporting and Special Tests and Provisions

U.S. Department of Health and Human Services	CFDA 93.778: Medicaid Cluster
Award Number: 05-0005MI5028 05-0005MI5048 05-0105MI5028 05-0105MI5048 05-0205MI5028 05-0205MI5048 05-0305MI5028 05-0305MI5048	Award Period: 10/01/1999 - 09/30/2000 10/01/1999 - 09/30/2000 10/01/2000 - 09/30/2001 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003
	Questioned Costs: \$54,640

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding reporting and special tests and provisions.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid Cluster awards.

Our exceptions, by compliance area, are as follows:

a. Reporting

DCH submitted reports to the federal government that misclassified expenditures among categories by as much as \$719 million. Although the aggregate of the overstatements and understatements netted to zero, the federal government cannot rely on certain details in DCH's reporting for decision-making purposes.

Federal regulation 42 *CFR* 433.74 requires DCH to submit a quarterly statement of expenditures (CMS-64) for the Medicaid Program. The CMS-64 contains expenditure detail by type of expenditure (e.g., inpatient hospital services, nursing facility services, and payments to managed care organizations) so that the federal awarding agency can make appropriate programmatic and financial decisions regarding the efforts of the State.

To prepare selected lines of the CMS-64, DCH used the FD-703 report, which is a detailed report of Medicaid monthly expenditures containing the types of expenditures required to prepare the CMS-64. The FD-703 reports were inaccurate from January through September 2003 because DCH procedures did not ensure the appropriate implementation of a new reporting format required by the new Health Insurance Portability and Accountability Act.

As shown in the following table, DCH's use of the inaccurate FD-703 reports resulted in the reporting of inaccurate expenditures for three of the program elements included on the CMS-64 for the second, third, and fourth quarters of fiscal year 2002-03, a period in which Medicaid expenditures totaled \$5.5 billion:

CMS-64 Line Number and Description	Expenditures		Error (Understated) Overstated	Error Percentage
	Reported	Actual		
2A, Mental Health Facility Services	\$ 955,615	\$ 1,055,461	\$ (99,846)	10%
3, Nursing Facility Services	\$ 129,811,935	\$ 848,787,420	\$(718,975,485)	554%
17D, Coinsurance	\$ 729,488,743	\$ 10,413,412	\$ 719,075,331	99%

b. Special Tests and Provisions

DCH needs to improve its internal control over compliance with special tests and provisions:

- (1) DCH did not establish and maintain a program for conducting a biennial risk assessment of the Medicaid Management Information System (MMIS), as required by federal regulations.

By performing regular risk assessments, DCH could better ensure that it included appropriate, cost-effective internal control in MMIS, which processes 60,000 to 100,000 daily transactions that result in annual Medicaid payments of approximately \$8 billion.

Federal regulation 45 *CFR* 95.621 requires DCH to review the automated data processing security of installations involved in the administration of

the federal programs on a biennial basis. This regulation requires, at a minimum, that the reviews include an evaluation of physical and data security operating procedures and personnel practices.

DCH last completed a risk assessment in May 2001. The federal regulations required DCH to complete the next biennial assessment in May 2003. However, as of our audit fieldwork in March 2004, DCH had not begun the required assessment.

- (2) DCH did not have controls in place to ensure that it did not make Medicaid payments to medical providers who had not renewed their State medical licenses. As a result, DCH paid \$96,091 to unlicensed providers during the audit period, of which approximately \$54,640 was federally funded and are questioned costs.

Federal guidance and State law require providers of medical services to be licensed in accordance with federal, State, and local laws in order to participate in the Medicaid Program and receive Medicaid payments. The Michigan Public Health Code states that licensees shall not practice or use their title during the period in which their license is considered null and void.

Medical licenses generally require renewal within 3 years. Our review disclosed that 34,048 medical providers enrolled in the Medicaid Program more than 3 years prior to our February 2004 fieldwork testing (i.e., before October 1, 2000). Of the 34,048 medical providers, licenses of 3,301 (10%) medical providers had lapsed and, therefore, the medical providers were no longer licensed to practice medicine. Of the 3,301 medical providers with lapsed medical licenses, 127 (4%) received Medicaid payments totaling \$96,091 during our audit period for medical services provided after their Michigan medical licenses had lapsed.

RECOMMENDATION

We recommend that DCH improve its internal control over the Medicaid Cluster to ensure compliance with federal laws and regulations regarding reporting and special tests and provisions.

FINDING (390414)

14. Block Grants for Prevention and Treatment of Substance Abuse, CFDA 93.959

U.S. Department of Health and Human Services	CFDA 93.959: Block Grants for Prevention and Treatment of Substance Abuse
Award Number: 98 B1 MI SAPT 99 B1 MI SAPT 01 B1 MI SAPT 02 B1 MI SAPT 03 B1 MI SAPT	Award Period: 10/01/1997 - 09/30/1999 10/01/1998 - 09/30/2000 10/01/2000 - 09/30/2002 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: \$4,884,375

DCH did not comply with federal laws and regulations regarding matching, level of effort, and earmarking for the Block Grants for Prevention and Treatment of Substance Abuse (Substance Abuse Block Grants).

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of the Substance Abuse Block Grant awards.

Our exception, by compliance area, is as follows:

Matching, Level of Effort, and Earmarking

DCH did not comply with federal level of effort expenditure requirements for the Substance Abuse Block Grants. As a result, we questioned costs of \$4,884,375.

Federal regulations require that DCH maintain expenditures for its Substance Abuse Block Grant related efforts at a level that meets or exceeds the average nonfederal expenditures for the previous two years. When the State does not comply with level of effort requirements, the federal government may, accordingly, reduce its grant awards.

We reviewed Substance Abuse Block Grant expenditures during our audit and noted that DCH fell \$4,884,375 short of meeting its fiscal year 2002-03 level-of-effort requirement for Substance Abuse Block Grant expenditures. We reported this amount as a questioned cost.

The average amount of State expenditures for Substance Abuse Block Grant efforts for fiscal years 2001-02 and 2000-01 was \$43,374,441. However, in fiscal year 2002-03, DCH expended only \$38,490,066 for Substance Abuse Block Grant related efforts.

RECOMMENDATION

We recommend that DCH improve its internal control to ensure that the Block Grants for Prevention and Treatment of Substance Abuse complies with federal laws and regulations regarding matching, level of effort, and earmarking.

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

OTHER SCHEDULES

DEPARTMENT OF COMMUNITY HEALTH
Summary Schedule of Prior Audit Findings
As of September 30, 2003

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1999 through September 30, 2001
Finding Number: 390103
Finding Title: Inpatient Hospital Claims Liability

Finding: The Department of Community Health's (DCH's) estimate of the liability for Medicaid inpatient hospital claims that had been incurred but not reported as of September 30, 2000 included adjustments for factors that were not adequately supported by relevant, sufficient, and reliable data.

Comments: DCH complied with the corresponding recommendation.

DCH revised its procedures and based its estimate of the liability for fiscal years 2001-02 and 2000-01 on a three-year average of claims processed. An updated historical database was created to determine the amount of the current year accrual as well as adjust the accrual for prior years.

The estimate of the liability for inpatient hospital expenditures using the new methodology provides a more accurate reflection of the actual activity in the subsequent fiscal years.

Audit Period: October 1, 1999 through September 30, 2001
Finding Number: 390105
Finding Title: Revenue Recognition

Finding: DCH did not recognize revenue received from civil penalty fines in accordance with generally accepted accounting principles, as required by Section 18.1494 of the *Michigan Compiled Laws*.

Comments: DCH complied with the corresponding recommendation.

DCH has revised its procedures to ensure that revenue collected from civil penalty fines is recorded as cash revenue when received rather than as deferred revenue. DCH recognized the approximately \$2.1 million deferred revenue balance in fiscal year 2001-02 as earned in a newly designated private fund. Any unexpended penalty monies will carry forward to the following year.

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 390106

Finding Title: Cash Management

Finding: DCH needs to improve internal control over its cash management procedures.

Comments: DCH complied with the corresponding recommendation.

DCH implemented measures to ensure that it complies with the federal Cash Management Improvement Act (CMIA) of 1990, *Michigan Compiled Laws*, and DMB Administrative Guide procedures. DCH has clarified its written procedures to address the CMIA grant procedures for instances in which there are insufficient funds available for the cash draw.

To improve the internal control over this process, DCH initiated measures to ensure that staff are cross-trained, staff with backup responsibilities are required to perform the functions more frequently, supervisory monitoring of the process has been expanded, an automatic reminder system has been implemented to ensure draws are timely, and available federal data on the Payment Management System is used more efficiently to improve reporting activities to the Michigan Department of Treasury.

Audit Period: October 1, 1999 through September 30, 2001
Finding Number: 390107
Finding Title: Payroll Internal Control

Finding: DCH should improve its internal control over the payroll process.

Comments: DCH complied with the corresponding recommendation.

DCH agrees in principle that effective internal control would prohibit employees from having the capability to enter transactions for themselves, particularly transactions with the potential for personal gain; however, in certain circumstances and situations, it may be necessary to permit payroll staff to input some transactions for themselves. DCH will continue to monitor this situation and make every effort to ensure that these situations are kept to a minimum and will explore the possibility of implementing other compensating controls over the input process. DCH will make every effort to limit these situations to transactions for which there is no potential for personal gain to the employee, such as situations requiring a mass update or batch recoding of an entire work unit.

DCH has taken steps to ensure that reports produced from the Human Resources Management Network are used as monitoring tools on a regular basis to identify and correct errors in processing payroll transactions.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1999 through September 30, 2001
Finding Number: 390101
Finding Title: Internal Control Over Financial Reporting

Finding: DCH needs to improve its internal control over financial reporting to ensure that financial transactions are processed in accordance with State and federal regulations.

Comments:

DCH has taken steps to comply with the corresponding recommendation.

For part a. of the finding, DCH's Bureau of Finance will continue to emphasize and improve its monitoring and review activities over financial transactions. DCH anticipated that the material weakness identified in the fiscal year 1999-2000 biennial assessment would be addressed as part of the fiscal year 2001-02 assessment. While the fiscal year 2001-02 assessment did not adequately address the monitoring issue, DCH, under the direction of the Bureau of Finance, will continue its efforts to document DCH's monitoring activities to ensure that controls are working as designed. The next biennial assessment will document and assess the effectiveness of DCH's monitoring activities.

For part b. of the finding, DCH started using a previously developed spreadsheet that it had discontinued that links the accrual package, financing, and journal vouchers. An internal control system and staff assignments have been established to verify that entries from source documents are recorded accurately.

For part c. of the finding, DCH will consider revising the financial status reports to more specifically identify certain categories of costs once the major issues common to all of the community mental health service programs (CMHSPs) have been adjudicated. DCH does not agree that the type of examples addressed in the finding could be avoided through improved monitoring of financial status reports submitted by CMHSPs. However, DCH will utilize this additional information as part of its risk assessment process to determine which CMHSPs to audit. The first CMHSP administrative appeal hearing started on September 11, 2002. Preliminary settlements have been reached on three CMHSP appeals; however, a formal decision has not yet been issued as a result of the judicial proceedings.

For part d. of the finding, the HIV/AIDS Prevention and Intervention Section, Grants Management Section, Budget & Contracts Division staff, and Southeastern Michigan Health Association representatives have met to develop a plan to improve tracking and coding of grantee administrative time. A time sheet has been developed for the allocation of time according to reportable categories of program, administration, planning and evaluation, and quality management. Training and piloting of the new form occurred in October 2002, with official use beginning on November 1, 2002. Monitoring of contractors' administrative cost requirements have been improved by requiring all contractors to identify administrative costs in a separate column in their budget summaries. Nonprofit contractors will be required to report administrative expenditures quarterly on the financial status report beginning in fiscal year 2003-04.

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 390102

Finding Title: Medicaid Claims and Payment Data

Finding: DCH had not implemented controls to ensure the accuracy of Medicaid inpatient hospital claims and payments.

Comments: DCH has taken steps to comply with the corresponding recommendation.

For part a.(1) of the finding, the Department of Information Technology (DIT) currently keeps 10 years of claim data in a production environment on the BULL mainframe. DIT has controls in place from the time the claims enter the Medicaid Management Information System (MMIS) all the way through storage into the history file. When the data is pulled from the history file for cost settlement purposes, the data is reviewed for reasonableness to determine that the numbers of records selected are within normal ranges. In addition, the first page of the report details all the rates in effect during the periods of time

requested for settlement purposes. This process enables the Hospital and Health Plan Reimbursement Division to verify the accuracy of the data.

For parts a.(2), a.(3), and a.(4) of the finding, current rates used for cost settlement are now obtained from the production rate table. Ancillary tables must still be maintained because MMIS does not have the capability to store multiple rates for the same rate period. However, the rates used to calculate the retroactive rate changes are stored and maintained in a controlled production environment. DIT has formalized the Request for Service process and also documented all the procedures it takes to run these requests. In addition, two additional staff have been trained on this process. The Medicaid Support Section downloads claim information received from DIT into an Access database. Comparisons are made against previous data pulls and cost settlement claim information to verify the accuracy and completeness of the downloaded data.

For part b. of the finding, the Hospital and Health Plan Reimbursement Division has initiated measures to change the medicaid inpatient hospital program's reimbursement policies with respect to the entire cost settlement process. Effective with cost reports filed by hospitals with fiscal years that end on or after January 1, 2002, settlements will be calculated using filed rather than audited information. This will eliminate the reliance on Medicare audited cost reports and enable final settlements to be calculated within 3 years from the end of the hospitals' fiscal year-end. DCH has effectively changed its policy and is in the process of making the necessary amendment to the State Plan.

For part c. of the finding, new procedures for calculating capital interim payments were developed and implemented for providers with fiscal years ended on and after June 30, 2000. This new methodology calculates the capital interim payments and Medicaid interim payments based on hospital-filed quarterly reports.

For part d. of the finding, DCH implemented a new Gross Adjustment System on October 1, 2002. This new system interfaces with MMIS and MMIS interfaces with Michigan Administrative Information Network* (MAIN), thus eliminating the need to re-key payment information from one system to another. MMIS payroll totals are reconciled to MAIN on a weekly basis. Although the majority of the components of the Medicaid inpatient hospital accrual are still manual, the MAIN Support and Medicaid Accrual Section has implemented numerous checks and balances to ensure the accuracy of the accrual calculation.

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 390104

Finding Title: Inpatient Hospital Receivables

Finding: DCH needs to improve its internal control to help ensure that inpatient hospital receivables are collected, that amounts not collected are referred to the Department of Treasury, and that uncollectible amounts are properly written off.

Comments: DCH partially complied with the recommendation.

For part a. of the finding, DCH has developed written procedures to actively pursue inpatient hospital receivables from hospitals that are no longer filing claims. The procedures were implemented in December 2003. The procedures address amounts owed from active providers, providers that have filed for bankruptcy, and providers that have closed or discontinued participation in the Medicaid Program. The procedures also address circumstances in which the collections are referred to the DCH Accounting Division for further action. In addition, DCH has collected the entire \$12.8 receivable identified in the audit. In April 2003, the Hospital and Health Plan Reimbursement Division provided DCH Accounting Division with a new listing of hospital referrals; however, DCH Accounting Division has not yet acted upon these referrals.

* See glossary at end of report for definition.

For part b. of the finding, DCH has developed a process for referring uncollectible accounts to the Department of Treasury, consistent with Department of Management and Budget (DMB) Administrative Guide requirements.

For part c. of the finding, DCH completed a review of all balances posted to the debit/credit balance report (MQ774) to determine if they were collectible. An appropriate purge to update information was completed on these reports. Collection efforts commenced immediately for accounts determined to be collectible and noncollectible amounts were written off.

For part d. of the finding, DCH has implemented procedures to ensure that receivables are not prematurely written off.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 390109

Finding Title: MIChild Eligibility Determination

Finding: DCH enrolled children in the State Children's Insurance (MIChild) Program without determining that they were eligible in accordance with federal regulations.

Comments: DCH complied with the recommendation.

DCH revised its procedures to ensure that children will not be enrolled in the MIChild Program without first determining their eligibility. As described in the finding, children were enrolled in the Program without first determining their eligibility in order to eliminate a large backlog of applications received during fiscal year 1999-2000. This was an isolated situation and DCH chose, on a one-time basis, to enroll each applicant to eliminate the

backlog and to ensure that eligible children would receive necessary services. Maximus, the agency under contract with DCH to conduct eligibility determinations, has met the standard of promptness (SOP) since that time.

To ensure a new backlog does not develop, DCH requires the contractor to report processing times on a weekly basis. In addition, DCH has revised the application process to make it easier for families to provide the necessary information for an eligibility determination to be made within the SOP. DCH has also instituted audits of Maximus' eligibility determinations to ensure that applications are being reviewed within the SOP and that DCH policy is being adhered to.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 390110

Finding Title: Incarcerated Medicaid Recipients

Finding: DCH had not established control procedures to identify and deactivate all incarcerated Medicaid recipients.

Comments: DCH has taken steps to comply with this recommendation.

DCH will implement an automated process to identify all incarcerated Medicaid recipients. Once verified, with the exception of inpatient services, DCH will ensure that Medicaid federal finance participation will not be claimed for incarcerated recipients. This information will then be forwarded to the Family Independence Agency to assess whether eligibility should be terminated for any of its program recipients.

DIT has received information on incarcerated individuals from the Department of Corrections (DOC) and completed a preliminary match against Medicaid recipients.

DIT worked with DOC and DCH to get clarification on the 12 different status codes associated with incarcerated individuals and to identify the codes associated with Medicaid ineligibility.

Once all ineligibility status codes were identified, a new match was performed and forwarded to Medicaid staff for verification.

Once DCH changes Medicaid policy on inpatient services for incarcerated recipients to reflect federal regulations, funds will be recouped as necessary.

Incarceration dates are being added to MMIS for claims to pay or reject against.

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 390111

Finding Title: Internal Control Over Financial Reporting

Comments: See Finding 390101 with the findings related to the financial schedules.

Audit Period: October 1, 1999 through September 30, 2001

Finding Number: 390112

Finding Title: Medicaid Claims and Payment Data

Comments: See Finding 390102 with the findings related to the financial schedules.

DEPARTMENT OF COMMUNITY HEALTH

Corrective Action Plan

As of June 18, 2004

FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Finding Number: 390401

Finding Title: Biennial Internal Control Assessment

Management Views: The Department of Community Health (DCH) agrees with the recommendation and will implement measures to improve its biennial internal control assessment process to ensure compliance with State requirements.

Corrective Action: The deficiencies identified in the finding regarding the biennial internal control assessment were discussed at the last management team meeting. The importance of this process was emphasized at the meeting, a preliminary training schedule was set up, and a time line for completing the next assessment was disseminated at the meeting. The next evaluation will identify and include DCH's major assessable units and will address the deficiencies cited in the audit finding.

Anticipated Completion Date: May 1, 2005 and ongoing from there

Responsible Individual: Jim Brandell

Finding Number: 390402

Finding Title: Internal Control Over Financial Reporting and Accounting

Management Views: DCH agrees that there were some errors in the financial schedules, notes to the financial schedules,

and supplemental financial schedules and is committed to reducing or eliminating these errors.

While acknowledging the misclassification addressed in part a. of the finding, DCH does not necessarily agree that this was the result of poor internal control. The distinction between a vendor and subrecipient is not always straightforward. Following some internal discussion, DCH incorrectly decided to classify these expenditures as being distributed to subrecipients. DCH's reconciliation procedures would not have identified this error. In addition, it should be pointed out that the totals were correct and the discrepancies were limited to the proper classification of these expenditures.

With respect to the other findings, DCH generally agrees that improvements could be made in DCH procedures that may help prevent or substantially reduce the likelihood of these errors from occurring in the future.

Corrective Action:

The misclassification identified in part a. of the finding has been corrected. Since the reconciliation process would not have identified this type of error, DCH does not need to make changes to its reconciliation procedures; however, DCH will attempt to devote additional resources to the review process and will place more emphasis on the proper classification of these expenditures.

For parts b., d., and e., DCH acknowledges that errors were made that went undetected and will review and evaluate its procedures and make changes as necessary to prevent these errors from occurring in the future.

While part c. of the finding did not result in any documented errors, DCH agrees with the finding and will implement procedures to reconcile invoices from First Health Services Corporation to the underlying claims files.

Anticipated Completion Date: Part a. - Completed
Parts b., d., and e. - Ongoing
Part c. - Immediately

Responsible Individuals: Parts a., b., and d. - Lyle Ross
Part c. - Giovanino Perri
Part e. - Gary VanNorman

Finding Number: 390403
Finding Title: Receipts Processing Controls

Management Views: DCH does not agree with the finding or recommendation. In response to a specific request from DCH, the Department of Management and Budget's (DMB's) Office of Financial Management (OFM) reviewed and affirmed DCH's interpretation of DMB Administrative Guide procedure 1270.02 and affirmatively approved DCH's controls over processing of receipts. Under the procedures reviewed and affirmed by OFM, DCH is not required to have mail opened by one person and immediately passed to a second person to log. Having two individuals in the mailroom in plain view of each other as well as other personnel in plain sight of the mail-opening table provides adequate internal control over the cash receipting process. The amount of cash received through the mail as compared to DCH's multi-billion dollar budget is not material. DCH will not devote additional resources to a process for which its current procedures are adequate.

Corrective Action: None required

Anticipated Completion Date: Not applicable

Responsible Individual: Not applicable

Finding Number: 390404

Finding Title: Controls Over Procurement Card Usage

Management Views: DCH acknowledges the minor exceptions identified in the audit finding and has taken steps to reinforce compliance with its existing procedures. DCH acknowledges that there were two purchases made that are prohibited by State procedures; however, both were considered unique situations and were knowingly made as one-time exceptions to established policy.

Corrective Action: DCH has taken steps to reiterate and reinforce State and DCH requirements to all procurement cardholders to ensure that users comply with established policies and procedures. Periodic post audit reviews of cardholders' procurement card usage continue to be conducted to verify compliance and corrective action taken, when and if warranted.

Anticipated Completion Date: Immediately and ongoing

Responsible Individual: Kristi Broessel

Finding Number: 390405

Finding Title: Payroll Controls

Management Views: While DCH agrees with the finding and recommendation, the problem is not widespread as

the exceptions identified in the finding were largely isolated to one particular area.

Corrective Action: DCH will immediately reinforce and reiterate its existing policy to ensure that semiannual certifications are completed as required and that personnel activity reports are retained. The staff that work on more than one program will be required to maintain detailed activity reports or DCH will develop and implement an approved time allocation system that meets federal requirements and can be adequately documented.

Anticipated Completion Date: Immediately and ongoing

Responsible Individuals: Larry Sklapsky
Doris Gellert

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 390406
Finding Title: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program), *CFDA 10.557*

Management Views: DCH agrees with the finding and recommendation.

Corrective Action: DCH (WIC Division) will implement measures to ensure that it complies with all of the Division's monitoring responsibilities. The Division has implemented a database that will greatly enhance its ability to track findings and make improvements in terms of how the findings are addressed. The information will be used to identify issues to be covered in training workshops provided at local agencies. Steps will be taken to improve the time it takes to communicate findings to subrecipients, to

ensure that corrective action plans are submitted, and to notify subrecipients whether the corrective action plan has been approved. A formal work plan has been developed and implemented to ensure that these problems are corrected.

Anticipated Completion Date: Immediate and ongoing

Responsible Individual: Alethia Carr

Finding Number: 390407

Finding Title: Byrne Formula Grant Program, *CFDA* 16.579

Management Views: DCH agrees with parts a. and b.(2) and disagrees with part b.(1) of the finding and the recommendation to the extent that both imply that DCH is required by federal regulation to review specific and individual elements of compliance for every grantee agency in order to comply with the federal monitoring requirements. The subrecipient monitoring requirements are very general and open to interpretation. The actual requirement is only that a pass-through entity is responsible for monitoring its subrecipients and that monitoring activities can be accomplished through a variety of unspecified methods, including site visits. There is no specific requirement to review every compliance element for every grantee agency, as the finding implies. The standard only requires that a pass-through entity perform monitoring activities sufficient to provide reasonable assurance that its subrecipients' administration of federal awards is in compliance with laws, regulations, and the provisions of contracts or grant agreements.

Corrective Action: Part a. of the finding was also addressed in Finding 390405. DCH agrees with the finding, will take steps

to correct the deficiency, and will return the federal funds if it cannot ultimately demonstrate that these costs are allowable.

For part b.(2) of the finding, DCH (Office of Drug Control Policy) will improve its monitoring activities with respect to the frequency of its site visits that are conducted. DCH will modify its procedures to require one site visit per subrecipient over the total life of the grant period, which permit a program to be funded over four years. In the current environment, it simply is not possible to conduct site visits of each subrecipient on an annual basis.

For part b.(1) of the finding and the corresponding recommendation, DCH (Office of Drug Control Policy), in consultation with the DCH Office of Audit, will review the federal requirements and develop and implement a risk-based approach that will define the activities to be performed sufficient to meet the standard of reasonable assurance over its monitoring responsibilities.

Anticipated Completion Date: Ongoing and completed

Responsible Individuals: Doris Gellert
Deb Hallenbeck

Finding Number: 390408

Finding Title: Aging Cluster, *CFDA* 93.044 and 93.045, and National Family Caregiver Support, *CFDA* 93.052

Management Views: DCH agrees with parts a. and b.(4) and disagrees with parts b.(1), b.(2), and b.(3) of the finding and the recommendation to the extent that both the finding and recommendation imply that DCH is required by federal

regulation to review specific and individual elements of compliance for every grantee agency in order to comply with the federal monitoring requirements.

With respect to part b.(4) of the finding, all of the federal Title III funds were spent on allowable activities. DCH (Office of Services to the Aging [OSA]) used State General Fund dollars to meet the federal earmarking requirements.

The subrecipient monitoring requirements are very general and open to interpretation. The actual requirement only states that a pass-through entity is responsible for monitoring its subrecipients and that monitoring activities can be accomplished through a variety of unspecified methods, including site visits. There is no specific requirement to review every compliance element for every grantee agency, as the finding implies. The standard only requires that a pass-through entity perform monitoring activities sufficient to provide reasonable assurance that its subrecipients' administration of federal awards is in compliance with laws, regulations, and the provisions of contracts or grant agreements.

Corrective Action:

DCH has taken corrective action to comply with part a. of the finding. DCH included all subrecipients' reported income on the fiscal year 2002-03 final financial status report and will continue to report all of the reported income on future reports.

For part b.(4) of the finding, DCH (OSA) has requested and expects approval of the waiver from the federal Administration on Aging regarding the earmarking requirements. DCH (OSA) will also consider revising the earmarking requirements set forth in the State Plan.

For parts b.(1), b.(2), and b.(3) of the finding and the corresponding recommendation, DCH (OSA), in consultation with the DCH Office of Audit, will review the federal requirements and develop and implement a risk-based approach that will define the activities to be performed sufficient to meet the standard of reasonable assurance. As part of this assessment, consideration will be given to the materiality of the compliance element. For example, significant monitoring resources will not be expended if the risk of noncompliance is inconsequential for issues such as those described in parts b.(2) and b.(3) of the finding.

Anticipated Completion Date: Ongoing

Responsible Individuals: Holliace Spencer
Dee Lamb
Deb Hallenbeck

Finding Number: 390409

Finding Title: Immunization Grants, *CFDA* 93.268

Management Views: DCH agrees with parts a., b.(2), b.(3), and b.(4) and disagrees with part b.(1) of the finding and the first recommendation to the extent that both the finding and recommendation imply that DCH is required by federal regulation to review specific and individual elements of compliance for every grantee agency in order to comply with the federal monitoring requirements. DCH agrees with the second recommendation.

Corrective Action: Part a. of the finding was also addressed in Finding 390405. DCH agrees with the finding, will take steps to correct the deficiency, and will return the federal funds

if it cannot ultimately demonstrate that these costs are allowable.

For part b.(1) of the finding and the corresponding recommendation, DCH (Division of Communicable Diseases and Immunization), in consultation with the DCH Office of Audit, will review the federal requirements and develop and implement a risk-based approach that will define the activities to be performed sufficient to meet the standard of reasonable assurance.

For parts b.(2), b.(3), and b.(4), DCH (Division of Communicable Diseases and Immunization) will develop and implement procedures to reconcile subrecipient inventory reports to DCH inventory records and will immediately develop and implement procedures to centrally document the corrective action taken by the vaccination sites in response to deficiencies identified through the Division's monitoring activities.

Anticipated Completion Date: Immediate and ongoing

Responsible Individuals: Bob Swanson
Deb Hallenbeck

Finding Number: 390410
Finding Title: State Children's Insurance Program (CHIP),
CFDA 93.767

Management Views: DCH agrees with both the finding and the recommendation.

Corrective Action: For part a. of the finding, DCH will pursue an amendment to the contract language to require the

vendor to obtain a Statement on Auditing Standards No. 70 (SAS 70) audit on an annual basis.

For part b., DCH has revised its procedures to provide a much more coordinated effort among the Family Independence Agency (FIA), the vendor, and DCH that should reduce the errors considerably. A two-tiered budget review system has been implemented that will permit the timely review and adjudication of budgets identified by the vendor as being questionable. This process permits applications to be reviewed and acted upon promptly in those cases where the budgets referred to the vendor are found to be inconsistent with the budget information determined by FIA.

Anticipated Completion Date: Immediately and ongoing

Responsible Individuals: Part a. - Terry Geiger
Part b. - Logan Dreasky

Finding Number: 390411

Finding Title: Medicaid Cluster, *CFDA* 93.778, Internal Control

Management Views: DCH agrees with part a. of the finding and the recommendation as it relates to that particular issue.

DCH does not agree that the situation described in part b. of the finding is indicative of poor internal control. DCH lacked authority to refer the overpayment to the Michigan Department of Treasury for collection as the hospital was still in compliance with the terms of repayment. DCH does not believe it will be obligated to refund the federal share of the overpayment to the federal government.

Corrective Action: Part a. of the finding was also addressed as part of Finding 390402. DCH agrees with the finding and will immediately implement procedures to reconcile invoices from First Health Services Corporation to the underlying claims files.

For part b. of the finding, DCH will review the federal requirements to determine whether the situation qualifies as an exception that would not require the federal share of the overpayment to be refunded. Under certain circumstances, DCH is not required to return the federal share of any overpayments. The federal share will be refunded if it is ultimately determined that the situation does not qualify for the exception.

Anticipated Completion Date: Part a. - Immediately
Part b. - July 31, 2004

Responsible Individuals: Part a. - Giovanino Perri
Part b. - Brenda Fezatte
Gary VanNorman

Finding Number: 390412
Finding Title: Medicaid Cluster, CFDA 93.778, Subrecipient Monitoring

Management Views: DCH agrees with part a. of the finding that correctly pointed out that it needs to improve its documentation efforts regarding how and whether it resolved Medicaid Eligibility Quality Control (MEQC) error cases and also agrees that the interagency agreement with FIA needs to be updated to include federal award information required by U.S. Office of Management and Budget (OMB) Circular A-133. However, DCH does not agree that insufficient documentation and the type of

examples cited in parts b. and c. support the conclusion that DCH was not in compliance with federal laws and regulations regarding subrecipient monitoring. Neither of the previously mentioned findings support the general conclusion that DCH failed to comply with federal subrecipient monitoring responsibilities.

With respect to the other two examples described in parts b. and c. of the finding, DCH will not devote significant scarce resources to those types of monitoring activities currently performed by FIA. There is no specific regulatory requirement mandating or even suggesting that DCH perform either of these activities.

Through a subrecipient grant, FIA is responsible for determining client Medicaid eligibility. As described in the interagency agreement, FIA is required to have an MEQC system to help ensure the propriety of eligibility determinations for Medicaid clients. This system is also required by federal regulation and its purpose is to assess and test the eligibility determinations made by the FIA caseworkers at the local level. As a pass-through agency, DCH has certain responsibilities for monitoring the activities of its subrecipients. Monitoring activities can be of any form and need only be sufficient to provide reasonable assurance that the subrecipients comply with laws, regulations, and the terms of the grant or contract. DCH has satisfied this requirement. There is absolutely no question that FIA is performing the MEQC responsibilities. DCH receives a copy of the report detailing the results of the case reviews sampled and tested by the FIA Office of Quality Assurance. All error cases are reviewed and resolved. This is exactly the same process that was in

place when the Medicaid Program was part of FIA and has been accepted in past audits.

Finally, additional reliance can be gleaned from the FIA Single Audit and from federal reviews. As a subrecipient of DCH, FIA is required to have a Single Audit performed in accordance with the requirements of OMB Circular A-133. As a major high-risk program, Medicaid would be selected for compliance testing as part of the audit. Since eligibility drives payments, this element would be tested and reviewed as part of the audit.

Corrective Action:

DCH will revise and implement procedures to adequately document its follow-up efforts for all MEQC error cases. The status and ultimate disposition of every error case will be clearly documented. In addition, DCH is in the process of revising its interagency agreement with FIA to include federal award information required by OMB Circular A-133. DCH will also ensure that it diligently reviews the results of FIA's Single Audit and ensure adequate follow-up to any deficiencies identified in the audit that relate to the Medicaid Program. While DCH will continue to monitor error cases, DCH will not devote additional scarce resources to monitoring low risk activities such as the other type of activities described in the finding.

Anticipated Completion Date: In process and ongoing

Responsible Individuals: Carol Scheidt
Terry Geiger

Finding Number: 390413
Finding Title: Medicaid Cluster, *CFDA* 93.778, Reporting and Special Tests and Provisions

Management Views: For part a. of the finding, DCH agrees that it submitted expenditure reports to the federal government that contained classification errors, but disagrees that this was the result of an internal control weakness. DCH also agrees with parts b.(1) and b.(2) of the finding.

With respect to part a. of the finding, DCH was aware that certain expenditures on the FD-703 report that it used to prepare the quarterly CMS-64 report were incorrectly classified for three quarters during fiscal year 2002-03. The errors occurred because of problems encountered as part of the implementation of a new reporting format required by the new Health Insurance Portability Act. Even though the total expenditures were correct, DCH took steps to inform its federal liaison that three lines of the report were misclassified. The fact that the errors were discovered and communicated to the federal government is evidence that the control structure actually functioned as intended.

Corrective Action: The problem with the reports identified in part a. of the finding has been corrected. DCH will correct and resubmit the reports for the three inaccurate quarters by July 31, 2004.

The Medicaid Management Information System (MMIS), described in part b.(1) of the finding, is currently the subject of a performance audit and DCH is in the initial phases of procuring a new system. Both of these processes should provide more valuable and in-depth results than what could be expected from the regularly scheduled risk assessment. The new

system is expected to be implemented within approximately two years and risk assessments of the new MMIS will be conducted as required.

For part b.(2) of the finding, DCH will ensure that the project initially designed to address this issue will be completed. System edits will be implemented to ensure that medical providers are licensed before claims are approved for payments.

Anticipated Completion Date: Part a. - Not applicable
Part b.(1) - One year from the successful implementation of the new MMIS
Part b.(2) - July 2004

Responsible Individuals: Jay Slaughter
Ken Seyka

Finding Number: 390414
Finding Title: Block Grants for Prevention and Treatment of Substance Abuse, *CFDA* 93.959

Management Views: DCH generally agrees with the recommendation and the finding that identified a shortfall in the fiscal year 2002-03 level-of-effort requirements for Substance Abuse Block Grant expenditures. However, it should be pointed out that the maintenance of effort (MOE) or level-of-effort expenditure requirements is dependent upon State appropriations. The MOE requires a level of state spending equivalent to the previous two-year average. DCH was not able to meet the MOE requirement because of executive orders and other fiscal year 2002-03 appropriation reductions.

Corrective Action: DCH has requested a federal waiver to the fiscal year 2002-03 level-of-effort requirement for the Substance

Abuse Block Grant expenditures. If the waiver is not granted, DCH acknowledges that subsequent grant awards may be reduced by the amount of the shortfall.

DCH will improve its oversight of these grants in the future to ensure that these requirements are satisfied.

Anticipated Completion Date: In process and ongoing

Responsible Individuals: Nick Lyon
Doris Gellert

GLOSSARY

Glossary of Acronyms and Terms

AIDS	acquired immune deficiency syndrome.
CDC	Centers for Disease Control and Prevention.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CFR	<i>Code of Federal Regulations.</i>
CHIP	State Children's Insurance Program.
CMHSP	community mental health service program.
CMS	federal Centers for Medicare and Medicaid Services (formerly HCFA).
CMS-64	quarterly statement of expenditures.
DCH	Department of Community Health.
DIT	Department of Information Technology.
DMB	Department of Management and Budget.
DOC	Department of Corrections.
FHSC	First Health Services Corporation.
FIA	Family Independence Agency.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.

FRAM	Financial Reporting and Accounting Manual (prepared by the Department of Management and Budget).
HHS	U.S. Department of Health and Human Services.
HIV	human immunodeficiency virus.
HKP	Healthy Kids Program.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal

program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

MBPI	Michigan Biologic Products Institute.
MDPH	Michigan Department of Public Health.
MEQC	Medicaid Eligibility Quality Control.
Michigan Administrative Information Network (MAIN)	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
MIChild Program	State Children's Insurance Program.
MMIS	Medicaid Management Information System.
MOE	maintenance of effort.
OAG	Office of the Auditor General.
OFM	Office of Financial Management.
OMB	U.S. Office of Management and Budget.
OQA	FIA Office of Quality Assurance.
OSA	Office of Services to the Aging.
procurement card	A credit card issued to State employees for purchasing commodities and services in accordance with State purchasing policies.

questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
SAS 70 audit	Statement on Auditing Standards No. 70 audit. SAS No. 70 provides guidance for independent auditors who issue reports on the processing of transactions by a service organization for use by other auditors. There are two types of SAS 70 reports. A "report on controls placed in operation" contains a description of the service organization's controls that may be relevant to a user of the service organization's internal control. A "report on controls placed in operation and tests of operating effectiveness" states whether controls were suitably designed to achieve specified control objectives, whether they had been placed in operation as of a specific date, and whether the controls that were tested were operating with sufficient effectiveness.
SEFA	schedule of expenditures of federal awards.

Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SOP	standard of promptness.
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
TSCA	Toxic Substances Control Act.
unqualified opinion	<p>An auditor's opinion in which the auditor states:</p> <ol style="list-style-type: none"> a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial

schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or

- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

WIC Program

Special Supplemental Nutrition Program for Women, Infants, and Children.